

**RESPONSE TO NEW MARKET
OPPORTUNITIES: THE CASE OF THE
OVERSEAS EMPLOYMENT SECTOR**

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RESPONSE TO NEW MARKET OPPORTUNITIES
THE CASE OF THE OVERSEAS EMPLOYMENT SECTOR*

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I RATIONALE AND OBJECTIVES OF THE STUDY

The dramatic emergence of overseas opportunities for blue-collar as well as white collar employment during the last decade has generated a large demand of funds from the informal credit markets

Little is known about how overseas employment is financed. The government and formal banking channels have contributed only marginally to the credit market for workers pursuing foreign job opportunities. Yet there appears to be no real financial bottleneck obstructing overseas employment. One indication of this is the high incidence of successful cheating by fake labor recruiters of eager and cash-ready job applicants. This situation where the informal credit market has demonstrated a capacity to meet a strong demand for funds to persons with little or no access to formal lending institutions provides material for an illuminating case history.

*Paper presented at the Final Workshop on the Regional Study on Informal Credit Markets, Makati Metro Manila, 15-17 March 1989.

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Specifically, this study seeks to: (a) estimate the fund requirements of migrating overseas workers and analyze variations according to occupation, skill level, and destination of overseas workers; (b) determine the manner in which migrating workers raise the funds to cover recruitment costs such as the use of savings, sale of properties, and borrowings; (c) analyze the importance and contribution of different types of lenders, and the terms and conditions of borrowing for each; and (d) focus more closely on the profile and characteristics of professional moneylenders in overseas employment.

The research is presented in six chapters:

Philippine Overseas Employment in Perspective

Overseas Job Prices and the Financial Requirements of Overseas Job Applicants

Financing Overseas Employment: Self-Finance, Employer Sponsorship, and Borrowings

The Credit Market for Overseas Employment: Size, Nature, Terms, and Conditions of Lending

Case Studies of Professional Money Lenders in Overseas Employment

Conclusions and Policy Implications

The paper is supplemented by a Glossary of overseas employment terms listing underlined terms and phrases used in the paper (Annex 1); a Bibliography (Annex 2); and a related Technical Paper, "Overseas Workers' Remittances: Not a Leak, But a Bypass" (Annex 3).

II. PHILIPPINE OVERSEAS EMPLOYMENT IN PERSPECTIVE

A. Early Migration Experiences

The spirit of seeking greener pastures away from one's home finds early roots in Philippine history.

In the Spanish colonial period, many Filipinos, mainly students, artists, and scholars, migrated on their own volition to Spain in search of further schooling and the liberating environment of Europe in the 18th and 19th centuries. Others were forced to leave the country as in the case of suspected filibusteros (or subversives) who were banished to Marianas during the crackdown on liberals after the Cavite Mutiny of 1872 (Constantino 1975).

Filipino migration during the American period (1898-1944) consisted of three waves (Melendy 1980). The first involved young Filipino university scholars under the 1903 Pensionado Act. Many of these scholars (called 'pensionados,' referring to their receipt of allowances or pensions) returned home to important positions in Philippine government, business, and academe, and the success of this program persuaded others to follow suit. The second wave, from 1910-1929, was a result of the large scale recruitment of Filipino farm workers to the United States. Because of restrictions in the hiring of Chinese and Japanese immigrants during this period, Hawaiian plantation owners relied on Asian labor contractors to bring thousands of young low-skilled Filipino labor. These early contract workers, mainly from the Ilocos region, were motivated by economic reasons: poverty, growing lack of land, and rising tenancy. One hundred twelve thousand (112,000) workers from the Philippines arrived in Hawaii from 1909 to 1931. Their numbers were large enough to invite Philippine government regulation. In 1915, the Philippine Act provided for the licensing of recruiting agents and the review of overseas work contracts by the then Bureau of Labor.

B. Contract Migration

The term contract migration was used in the 60s to distinguish migration for an employment on a fixed period (as stated in the employment contract) from migration for settlement purposes. As professionals and technical workers were moving in the direction of the American mainland as immigrants, many skilled workers and craftsmen were hired by American construction companies for project work in Vietnam, Laos, and Cambodia. Other skilled workers were contracted by logging companies operated by Filipino and American companies in Indonesia and Malaysia in the 60s. Filipino entertainers, mainly musical bands and jazz artists, found a haven for their performing talents in Japan and Hongkong, earning the reputation of being the "Entertainers of Asia."

In the 70s, contract migration took new form and magnitude with the large movements to oil-rich countries in the Middle East. These countries, flushed with new-found wealth from the dramatic rise in the price of oil, embarked on massive development projects. Suffering from a relatively narrow population base, these countries opened temporary work opportunities for thousands of expatriate workers. Filipinos quickly took advantage of these opportunities. Starting in 1975 when a bilateral agreement with Iran was forged by the Philippine government, the numbers of Filipino workers in the Middle East burgeoned in the succeeding seven years. Much like the initial migration stream to the United States, contract workers to the Middle East were largely blue-collar workers.

The 1974 Philippine Labor Code formally established the Philippine Overseas Employment Program. State policy called for

the promotion of the overseas employment of Filipinos. In the process, two new government agencies were established to meet the needs of the program: the Overseas Employment Development Board which would directly recruit and place land-based contract workers, and the National Seamen's Board which would place seamen. In addition, the Bureau of Employment Services was tasked to supervise and license private employment agencies (Glossary: 1). This presidential decree also provided for the phase out of these private licensees, then numbering 19, within four years from 1975-1978.

But the Middle East phenomenon changed all that. In 1975, the signing of a labor agreement between the governments of Iran and the Philippines signalled the rising demand for Filipino contract workers in the region. The exodus grew geometrically from a 1975 benchmark of 1,552 workers to 34,441 within two years. And 13 years later, 80 percent of total worker outflow of nearly half a million people was bound for the Middle East (Table 2.1).

This growth in demand for Filipino contract workers could not be accommodated within the traditional avenues for recruitment. So despite the 1975 phase-out policy on private recruitment agencies, the size and extent of private job intermediation increased. Although no new private agency licenses were issued, the Bureau of Employment Services of the Department of Labor authorized construction contractors (Glossary: 2) and other private persons to recruit and hire for specific projects in the Middle East. In 1977, in addition to the 19 already licensed recruitment agencies, 26 construction companies and 22 holders of an authority to recruit (Glossary: 3) were allowed to recruit for overseas employment. By 1982, the numbers increased to 234 construction companies and 251 authority holders (Table 2.2).

Altogether, the number of land-based recruitment agencies and contractors rose from 19 in 1975 at the beginning of the phase-out period to 127 in 1978 which was the last year of the phase-out. At the end of 1982, 748 had been de facto licensed by the government. During this period, the share of Philippine private intermediaries in the overseas employment rose from 50 percent in 1977 to 97 percent in 1982, a share that is maintained till the present (Table 2.2).

New forms of job intermediation also emerged during this period. In contrast to fee-charging private employment agencies and manning agencies (Glossary: 4) which recruit and place land-based and sea workers, respectively, construction contractors act as direct employers of Filipino workers for construction sub-contracts in the foreign countries. The sub-contracts involve the management of both human and physical resources. The construction contractors were granted special privileges under Letter of Instruction 852 which limited the hiring of

Table 2.1
 PROCESSED LAND-BASED CONTRACT WORKERS
 BY MAJOR WORLD GROUP, 1975-1986

	'75	'76	'77	'78	'79	'80
Africa	342	473	515	1305	1134	1611
Asia	4217	5399	5290	9994	12604	17708
Europe	3160	2902	2482	1268	673	846
M. East	1552	7813	25721	34441	73210	132044
Oceania	551	133	139	80	312	165
Americas	2286	2168	2266	3371	3744	3534
Trust Terri- tories	393	333	263	502	842	1486
TOTAL	12501	19221	36676	50961	92519	157394
PERCENTAGE SHARES						
Africa	2.74	2.46	1.40	2.56	1.23	1.02
Asia	33.73	28.09	14.42	19.61	13.62	11.25
Europe	25.28	15.10	6.77	2.49	0.73	0.54
M. East	12.42	40.65	70.13	67.58	79.13	83.89
Oceania	4.41	0.69	0.38	0.16	0.34	0.10
Americas	18.29	11.28	6.18	6.61	4.05	2.25
Trust Terri- tories	3.14	1.73	0.72	0.99	0.91	0.94

Table 2.1. (cont'd)

	'81	'82	'83	'84	'85	'86	TOTAL
Africa	2144	1098	2353	2146	2053	2072	17246
Asia	20322	31011	40814	43385	54411	76650	321805
Europe	1126	1465	2878	3724	3675	4225	28424
M. East	183582	211003	323414	311517	266617	262758	1833672
Oceania	223	683	2072	1027	849	1129	7363
Americas	2101	3707	5646	5905	6897	6692	48317
Trust Terri- tories	1438	1148	3086	3361	3252	4161	20265
TOTAL	210936	250115	380263	371065	337754	357687	2277092
PERCENTAGE SHARES							
Africa	1.02	0.44	0.62	0.58	0.61	0.58	0.76
Asia	9.63	12.40	10.73	11.69	16.11	21.43	14.13
Europe	0.53	0.59	0.76	1.00	1.09	1.18	1.25
M. East	87.03	84.36	85.05	83.95	78.94	73.46	80.53
Oceania	0.11	0.27	0.54	0.28	0.25	0.32	0.32
Americas	1.00	1.48	1.48	1.59	2.04	1.87	2.12
Trust Terri- tories	0.68	0.46	0.81	0.91	0.96	1.16	0.89

Source: Overseas Employment Development Board, Bureau of Employment Services, National Seaman's Board, and Philippine Overseas Employment Administration. Annual Reports, 1980-1986.

Table 2.2
NUMBER OF PHILIPPINE RECRUITMENT INTERMEDIARIES,
BY TYPE, 1977-1987

AGENCY TYPE	'77	'78	'80	Y '81	E '82	A '83	R '84	'85	'86	'87
Private Agencies	23	19	19	19	20	579	471	461	375	339
Authority Holders	22	20	162	16						
Provsnl Authority				158	251					
Auth.to Negotiate				137	208					
Const. Contractor	26	88	150	266	234	231	208	163	71	59
Service Contractor					35	49	92	128	100	90
Total Land-based	71	127	331	596	748	859	771	752	546	488
Manning Agencies					164	202	212	194	186	
TOTAL FOR ALL						1023	973	964	740	674

Source: Bureau of Employment Services, National Seamen's Board,
and the Philippine Overseas Employment Administration.

construction workers solely to construction contractors. Service contractors (Glossary: 5) also act as direct employers of Filipino labor for management and other sub-contracts in foreign countries. Service contracting started in the mid-80s as a natural offshoot of the successful construction contractor policy and also, for some others, as a response to Letter of Instruction 1190 which banned the issuance of new private employment licenses. In order to participate in the booming overseas employment program, many entrepreneurs participated as service contractors, a category which remained open for new licensing.

While obviously the increase in the number of new agencies was driven by the large demand for Filipino workers and the high profit-taking, intermediaries enhanced the demand for Filipino and Asian contract workers by their ability to quickly organize and mobilize labor (Birks and Sinclair 1980). Many recruiters developed capabilities for mobilizing hundreds of workers to fill foreign job openings in short periods of time (Abella 1988).

In the first half of the 80s, contract migration to the Middle East peaked. Since then, there have been shifts in the occupational profile and worksite destinations of the contract workers. As the total percentage of placements to the Middle East has declined, the outflows to this region have also shifted

to professionals and skilled workers. Entertainers are actively recruited for Japan, domestic helpers for Hongkong and Singapore, and, most recently, skilled workers have been hired for Taiwan.

In 1983, the government machinery overseeing the Philippine overseas employment program was streamlined with the integration of the three government offices in overseas employment, the OEDB, NSB, and BES, into a single national body called the Philippine Overseas Employment Administration (POEA). In addition, the Overseas Workers' Welfare Fund (OWWA) was established in 1982 to provide on-site and post-employment welfare services to Filipino overseas workers. Among other work programs, OWWA funds a small loan program for overseas work applicants and emergency repatriations of workers in distress.

C. The Future

With legal work opportunities now restricted in many foreign countries and the increasing regulatory position taken by the Philippine government in overseas employment, there will be some stabilization in the number of legal overseas contract workers. Unless economic, political, and employment conditions in the Philippines improve, however, and in continued defiance of rules and regulations of both foreign and Philippine governments, the numbers of workers leaving for overseas employment disguised as tourists and holiday travellers will rise (Abrera-Mangahas 1986).

PROFILE OF FILIPINO OVERSEAS WORKERS AND SEAMEN

Data on international contract migration, despite improvements in collection and dissemination in recent years, remain fragmentary and inadequate. While documentation on flows has improved substantially, there is little information on the demographic, social, and economic characteristics of overseas contract workers.

A. Overall Magnitudes

Filipino contract migration from 1975 to the present has overshadowed all previous migratory movements in terms of its expansion and acceleration. From a level of 2,500 annually in the 1969-1971 period, the level of land-based contract migration rose to 12,500 in 1975 and to nearly 400,000 in 1986 (Table 2.1). Land-based migration grew on the average at 70 percent from 1975 to 1980, but this growth decelerated since then. While rates of growth have diminished, the overall magnitudes remain large. Compared to other expatriate workers in the Middle East in 1981, Filipinos are the second largest foreign nationality (Table 2.3).

Table 2.3
ESTIMATED STOCK OF ASIAN WORKERS IN THE MIDDLE EAST, 1981

COUNTRY	ESTIMATED BASED ON SENDING COUNTRY SOURCES	WORLD BANK PROJECTIONS, 1981	MID-1980 ESTIMATES
<u>South Asia</u>			
Bangladesh	178,500		
India	250,000	248,360	280,450
Pakistan	775,000	367,580	371,630
Sri Lanka	50,000		
<u>Southeast and East Asia</u>			
Indonesia	20,000		
Rep. of Korea	182,400	116,400	
Philippines	342,300		
Thailand	159,000		
TOTAL	1957,200	732,340	652,080

Source: International Labour Review. Vol. 123, No. 4, July-August 1984.

Filipino workers go to about 124 countries in the world. The Middle East is, however, the primary destination accounting for 80 percent of worker recruitment, 60 percent of which was directed towards the Kingdom of Saudi Arabia (Table 2.1). The share of the Middle East has been exceptional through the decade, starting from 12 percent in 1975 to 73 percent in 1986. Its peak was reached in 1981 when 87 percent of contract migrants left for Middle Eastern worksites. Since then this percentage share has fallen, and Asia is re-emerging as a significant job destination. Prior to the Middle East job boom, Asian worksites represented 34 percent of all contract migration. At the peak of the Middle East boom in 1981, the Asian share plunged to 9.63 percent. The proportions going to Asian destinations have since slowly risen reaching 21.43 percent in 1986. In terms of absolute numbers, the number of workers going to Asian worksites never slackened, increasing from 4,700 in 1975 to 76,000 in 1986.

Included in the total worker outflow are Filipino seamen hired for crewing aboard international ships. However, whereas in the early 70s, seamen accounted for about 60 percent of Filipinos leaving the country for work, this trend was reversed

in the late 70s and 80s. By 1986, the share of seamen in total placement had fallen to 14 percent. In absolute terms, seamen hiring increased from around 20,000 recruits in the early 70s to levels of 50,000 to 60,000 in the 80s (Table 2.4).

More seamen board American registered ships, followed by Asian, African, and European registered ships. In contrast, Middle East registered ships hire a smaller number of seamen (Table 2.5).

B. Characteristics and Personal Attributes

Official data releases from the Ministry of Labor provide information on the volume, destination, and occupational categories of contract workers and seamen. For other personal characteristics and attributes, the Philippine Overseas Employment Administration, upon special request, released for this research effort, unpublished 1986 data on worker attributes. The data come from a computerized database of entries in the Travel Exit Passes or personal identification forms of all newly hired contract workers. Unfortunately, the data also include a significant percentage of 'not stated' or 'not reported' entries, making the overall picture incomplete. Where there are data gaps and for purposes of comparison, the POEA data set will be complemented by data from the community or small group surveys undertaken by the Institute of Labor and Manpower Studies (ILMS) and other private research institutions. These surveys focused on particular sub-groups of contract migrants and do not represent the total worker population.

1. Contract Workers by Age and Gender

Information on the age and gender of overseas contract workers is available in the unpublished POEA 1986 data releases. Unfortunately, when it comes to gender, there is a high 'not reported' percentage of 45 percent.

Contract workers are in the most productive periods of their careers. Twenty-four percent (24.3%) of all workers are between the ages 20-29, 21.9 percent are between 30-39, 5.9 percent are between 40-49, and a small 1.3 percent are younger than 20. The differences in the age distribution of male and female contract workers are striking. Female contract workers are much younger than the male contract workers. Five percent (5%) of the females are between the ages 15-19 while only 0.34 percent of males are in this age range. Fifty-six percent (55.9%) of the women are between the ages 20-29 compared to 33.23 percent of the men (Table 2.6). This confirms the ratios in the ILMS study (ILMS 1983) which showed that 61 percent of the females are 29 years old or younger, while on the other hand, only 29 percent of males belong to this age category.

Table 2.4
 PROCESSED OVERSEAS CONTRACT WORKERS
 BY MAJOR OCCUPATIONAL GROUP, 1975-1986

	'75	'76	'77	'78	'79	'80
ABSOLUTE AMOUNTS						
Professional, Technical and Related Workers	4760	2924	2650	5238	9584	11966
Entertainers	1925	3872	2057	6097	8380	12395
Managerial, Executive, & Admin. Workers	71	82	210	331	1441	740
Clerical Workers	225	370	944	1516	2896	5383
Sales Workers	53	16	30	69	265	451
Service Workers	2747	3893	4576	7910	14089	23442
Agric'l, Animal Husbandry, Forestry Workers, & Fishermen	118	74	123	37	186	1581
Prod'n Process Workers, Transport Equipment Operators, & Laborers	2602	7990	26086	29763	55678	101436
TOTAL LAND-BASED	12501	20553	36035	61569	108162	176511
TOTAL SEA-BASED	23534	28614	33699	37280	44818	57196
PERCENTAGE SHARES						
Professional, Technical and Related Workers	38.08	14.23	7.35	8.51	8.86	6.78
Entertainers	15.40	18.84	5.71	9.90	7.75	7.02
Managerial, Executive & Admin. Workers	0.57	0.40	0.58	0.54	1.33	0.42
Clerical Workers	1.80	1.80	2.62	2.46	2.68	3.05
Sales Workers	0.42	0.08	0.08	0.11	0.25	0.26
Service Workers	21.97	18.94	12.70	12.85	13.03	13.28
Agric'l, Animal Husbandry, Forestry Workers, & Fishermen	0.94	0.36	0.34	0.06	0.17	0.90
Prod'n Process Workers, Transport Equipment Operators, & Laborers	20.81	38.88	72.39	48.34	51.48	57.47
GRAND TOTAL	36035	49167	69734	98849	152980	233707

Table 2.4 (cont'd)

	'81	'82	'83	'84	'85	'86	TOTAL
ABSOLUTE AMOUNTS							
Professional, Technical and Related Workers	12347	15010	39814	51403	57617	60753	27066
Entertainers	14333	13425	13117	13998	18342	26816	134757
Managerial, Executive, & Admin. Workers	1804	1462	1870	1222	1202	1317	11752
Clerical Workers	2585	8519	14189	15117	15141	15261	82146
Sales Workers	466	1394	2259	2295	2780	3562	13640
Service Workers	33109	43248	58151	77564	91381	117127	477237
Agric'l, Animal Husbandry, Forestry Workers, & Fishermen	1322	1158	1641	1578	1217	1557	10592
Prod'n Process Workers, Transport Equipment Operators, & Laborers	144970	165899	249222	207888	150074	131294	1272902
TOTAL LAND-BASED	220944	268365	427088	403201	362257	396400	2493586
TOTAL SEA-BASED	55307	64169	53944	54016	51446	56774	560797
PERCENTAGE SHARES							
Professional, Technical and Related Workers	5.59	5.59	9.32	12.75	15.91	15.23	10.99
Entertainers	6.49	5.00	3.07	3.47	5.06	6.76	5.40
Managerial, Executive & Admin.	0.82	0.54	0.44	0.30	0.33	0.33	0.47
Clerical Workers	1.17	3.17	3.32	3.75	4.18	3.85	3.29
Sales Workers	0.21	0.52	0.53	0.57	0.77	0.90	0.55
Service Workers	14.99	16.12	13.62	19.24	25.23	29.55	19.14
Agric'l, Animal Husbandry, Forestry Workers, & Fishermen	0.60	0.43	0.38	0.39	0.34	0.39	0.42
Prod'n Process Workers, Transport Equipment Operators, & Laborers	65.61	61.82	58.35	51.56	41.43	33.12	51.05
GRAND TOTAL	276251	332534	481032	457217	413703	453174	3054383

Source: Overseas Employment Development Board, Bureau of Employment Services, National Seamen's Board, Philippine Overseas Employment Administration.

Table 2.5
DISTRIBUTION OF SEAMEN BY COUNTRY OF REGISTRY
OF SHIPPING COMPANY, 1980*

REGISTRY	NO. OF SEAMEN	REGISTRY	NO. OF SEAMEN
Asia	9,781	Middle East	1,945
Japan	2,379	Bahrain	332
Malaysia	149	Kuwait	183
Philippines	1,722*	Saudi Arabia	1,172
Singapore	5,348	United Arab Emirates	258
Europe	7,323	The Americas	22,020
Cyprus	1,539	Bermuda	475
Denmark	149	Panama	21,288
France	257	Africa	12,532
Germany, Fed. Republic	624	Liberia	12,349
Greece	3,077	Rep. of Malay	183
Netherlands	418	Others	844
Norway	418	Not Stated	2,751
United Kingdom	841	ALL REGIONS	57,196

*Filipino seamen engaged in accordance with the shipping articles not included.

Source: National Seamen's Board. 1980 Annual Report, Manila.

Table 2.6
OVERSEAS CONTRACT WORKERS BY AGE AND GENDER, 1986
(In %)

AGE	MALE	%	FEMALE	%	NOT STATED	TOTAL	%
<15	20	0.04	9	0.02	0	29	0.01
15-19	102	0.19	2541	4.71	10	2653	1.33
20-29	18117	33.23	30168	55.94	102	48387	24.30
30-39	24874	45.62	18625	34.54	144	43643	21.92
40-49	9527	17.47	2250	4.17	38	11815	5.93
50-59	1531	2.81	90	0.17	6	1627	0.82
>=60	91	0.17	19	0.04	2	112	0.06
Not Stated	257	0.47	223	0.41	90388	90868	45.63
TOTAL	54519	100.00	53925	100.00	90690	199134	100.00
PERCENT	27.38		27.08		45.54		

Source: EDP, Philippine Overseas Employment Administration,
previously unpublished.

Based on POEA 1986 data, the percentage shares of males and females in overseas employment are now almost equal. Previous readings of gender differences done by ILMS in 1983 showed an 80-20 male-female ratio.

The rising percentage of women in overseas employment is an important issue in overseas employment. This is due not only to the rapid increases in hiring of females, but also to their disproportionately high share of low wage and high risk jobs such as domestic helpers and club entertainers.

2. Contract Workers by Educational Attainment and Employment Status

According to ILMS 1983 information, most contract workers and seamen are well educated, with 89 percent having at least high school and vocational certificates (Table 2.7).

Thirty seven percent (37%) of all contract workers are college graduates. Women tend to be better educated than the men, with 62 percent of the female group having college degrees (Table 2.8).

Table 2.7
OVERSEAS WORKERS BY LEVEL OF EDUCATION, 1983
(In %)

EDUCATIONAL LEVEL	ALL WORKERS	LAND-BASED	SEA-BASED
None or elementary	3.9	4.4	2.2
Some high school	7.4	8.2	4.4
High school graduate	27.5	18.1	18.3
Some college	18.1	18.1	18.3
College graduate or higher	36.5	36.8	35.6
Vocational graduate	6.6	4.8	12.8
TOTAL	100.0	100.0	100.0

Source: International Labor and Manpower Studies. "Working Abroad," 1984.

Table 2.8
OVERSEAS WORKERS BY LEVEL OF EDUCATION AND GENDER, 1983
(In %)

LEVEL OF EDUCATION	SEX	
	Male	Female
None or elementary	3.6	4.9
Some high school	8.0	4.9
High school graduate	30.2	17.0
Some college	20.1	10.4
College graduate	29.9	62.2
Vocational graduate	8.2	0.6
Total	100.0	100.0

Source: Institute of Labor and Manpower Studies. "Working Abroad," 1984.

Also, 70 percent of workers were employed while applying for overseas job (Table 2.9). In another 1983 study (Vasquez 1983), 76 percent were primary breadwinners prior to departure.

Table 2.9
OVERSEAS CONTRACT WORKERS BY EMPLOYMENT STATUS
DURING APPLICATION TIME, 1983
(In %)

NATURE OF RESPONSE	ALL WORKERS	Sea-Based	Land-Based
Yes	68.7	77.7	39.8
No	31.3	22.8	60.2
Total	100.0	100.0	100.0

Source: Institute of Labor and Manpower Studies. "Working Abroad," 1984.

3. Contract Workers by Civil Status

With 45 percent of workers nonreporting, the POEA 1986 data releases show that single workers (29%) slightly outnumber married workers (25.08%) (Table 2.10). This statistic departs from previously reported findings of the Institute (ILMS 1983) that married workers outnumber the singles. However, the same ILMS data did indicate that while the males were usually married (80%), females were often single (83%). The changed distribution of overseas workers by civil status is most probably caused by the large increases of young female workers in total overseas placements.

4. Contract Workers by Region of Origin

In 1983, 65 percent of workers have either continuously resided in the National Capital Region (NCR) or moved from the province to the NCR (Table 2.11). Most workers' birthplaces are in Luzon and areas near NCR. The bias for recruitment near economic centers, particularly Manila is a result of the centralization of all government travel and overseas employment services in this region.

Table 2.10
OVERSEAS CONTRACT WORKERS BY CIVIL STATUS, 1986

CIVIL STATUS	TOTAL	PERCENT
Single	57908	29.08
Married	49912	25.06
Widowed	529	0.27
Separated	223	0.11
Not Stated	90562	45.48
TOTAL	199134	100.00

Source: EDP Department, Philippine Overseas Employment Administration, previously unpublished.

Table 2.11
OVERSEAS CONTRACT WORKERS BY RESIDENTIAL MOBILITY, 1983
(In %)

BIRTHPLACE ⁺	ALL WORKERS	Land-Based	Sea-Based
1			
Continuous NCR Residence	26.0	28.0	28.9
Continuous Prov'l Residence	34.3	35.2	31.4
Moved from Province to NCR	39.7	36.8	49.7
Total	100.0	100.0	100.0

The first two categories include some people who had changed their place of residence but did not specifically move from a provincial residence to NCR.

1
NCR - National Capital Region

Source: Institute of Labor and Manpower Studies. "Working Abroad," 1984.

5. Contract Workers By Wage Level

The POEA 1986 releases provide the only available hard data on overseas worker wages. The data set is 90 percent complete since the remaining 10 percent of data sources state wages in 20 other currencies.

Eighteen percent (18%) of all hires earn less than US\$208 monthly. This may be due to seamen entry ratings since, in 1986, approved wages for this lowest seaman category is US\$137 per month. It may also be due to the rising number of exemptions to the officially stated land-based minimum wage of US\$208. Most workers (63%) earn between US\$208 - US\$500 with a median of US\$325 and an average of US\$479 (Table 2.12).

When disaggregated by gender, more women contract workers receive low wages. Thirty-three percent (32.59%) of the women workers earn less than US\$208, compared to only 7.4 percent of male workers (Table 2.12).

Table 2.12
OVERSEAS CONTRACT WORKERS' WAGE LEVEL (In US\$)
AND GENDER, 1986*

WAGE LEVEL (US\$)	MALE	Percent	FEMALE	Percent	NOT STATED	TOTAL	Percent
<208	3767	7.40	15003	32.59	14506	33276	18.37
=208	1245	2.44	195	0.42	1126	2566	1.42
209-250	4976	9.77	3741	8.13	8899	17616	9.72
251-300	8716	17.11	6499	14.12	12515	27730	15.31
301-350	3423	6.72	1831	3.98	5417	10671	5.89
351-400	10217	20.06	2097	4.56	9832	22146	12.22
401-450	5884	11.55	1444	3.14	6063	13391	7.39
451-500	3318	6.51	8533	18.54	8713	20564	11.35
501-1000	7818	15.35	5348	11.62	14169	27335	15.09
1001-2000	1278	2.51	1172	2.55	2565	5015	2.77
>3000	170	0.33	50	0.11	248	468	0.26
	50929		46035		84192	181156	100.00

AVERAGE: \$479.36

MEDIAN : In Range \$301-\$350

* Includes 181,156 deployed first-hire workers who have reported earnings in U.S. dollars. This covers 90 percent of all deployed workers,

Source: EDP Department, Philippine Overseas Employment Administration, previously unpublished.

6. Contract Workers by Recruitment Intermediary

The primary recruitment intermediary in overseas employment is the private employment agency. As a group, private agencies are responsible for 56 percent of all new placements, for a total of 176,741 workers in overseas jobs. Manning agencies follow second, crewing 70,973 seamen. Ranking third are construction and service contractors placing 17 percent of all workers or a total of 53,348. A minor intermediary is the government placement department within POEA which is responsible for only four percent of the 1987 total placements, or 13,188 workers (Table 2.13).

Table 2.13
RECRUITMENT AND PLACEMENT FIGURES BY RECRUITMENT INTERMEDIARY,
1986

RECRUITMENT INTERMEDIARY	NO. OF WORKERS	TOTAL PLACEMENT (Percentage)
Construction/Service Contractors	53,348	17.0
Private Employment Agencies	176,741	56.0
Government Placement	13,188	4.0
Manning Agencies	70,973	23.0
TOTAL	314,250	100.0

Source: Philippine Overseas Employment Administration

The quality of job intermediation varies, and little is known on the actual performance of recruitment agencies. Since 1985, the POEA rates placement agencies and contractors based on four criteria: job placements, foreign exchange remittances, adherence to POEA rules and regulations, and welfare services. The top ten agents and contractors, in terms of ratings, are annually given Performance Awards in recognition of their achievements in recruitment, placement, and foreign exchange generation.

The POEA released, on special request, the 1986 placement data of the different types of licenses. Data shows the rather

uneven performance of the intermediaries. Thirty-eight percent (38%) of all licensed agencies and contractors placed 50 persons or less in overseas jobs, while 3.7 percent placed over 1,000 persons. Using the job generation criterion, construction companies and service contractors performed the worst, followed by private employment agencies and manning agencies (Table 2.14).

Table 2.14
OVERSEAS CONTRACT WORKER PLACEMENTS BY AGENCY TYPE, 1986

Placement Level (No. of Workers)	Manning Agency (%)	Service Contractor (%)	Private Agency (%)	Const. Contractor (%)	Overall (%)
0 - 50	32.3	47.4	34.3	62.0	38.3
51 - 100	19.9	16.0	11.4	9.2	13.7
101 - 200	14.9	18.0	16.2	4.6	14.9
201 - 300	7.9	8.0	11.8	5.7	9.8
301 - 400	6.5	3.0	6.6	4.6	5.9
401 - 500	5.9	1.0	4.6	1.4	4.1
501 - 800	5.5	2.0	7.0	5.7	5.9
801 - 1000	3.5	2.0	4.4	1.1	3.5
> 1,000	3.5	2.0	3.7	5.7	3.7

Source: EDP Department, Philippine Overseas Employment Administration, previously unpublished.

C. Remittances from Contract Workers and Seamen

Overseas worker remittances provided the foreign reserve buffer to a deteriorating economy in the first half of the 80s. From a level of US\$290 million in 1978, overseas remittances rose to US\$895 million in 1983, then declined substantially in 1984 (Table 2.15).

The rise in remittances did not parallel the increases in overseas worker employments, leading many to conclude that the bulk of workers' foreign exchange remittances entered the country through nonbanking channels. While on the whole land-based worker remittances were larger than seaman remittances, on a per capita basis, seaman remittances are bigger. A more extensive development of the remittance data is found in a related paper, "Overseas Workers' Remittances: Not a Leak, But a Bypass."

Table 2.15
OVERSEAS CONTRACT WORKERS' REMITTANCES, 1978-1988
(In US\$M)

YEAR	LAND-BASED	SEA-BASED	TOTAL
1978	208.84	82.01	290.85
1979	264.57	100.17	364.74
1980	299.69	121.58	421.27
1981	195.50	162.22	357.72
1982	481.61	168.14	649.75
1983	610.80	284.37	895.17
1984	416.60	186.31	602.91
1985	597.89	89.31	687.20
1986	571.75	108.69	680.44
1987	671.43	120.18	791.61
1988	683.30	173.50	856.80

Source: Department of Economic Research, Central Bank of the Philippines, as published in Philippine Overseas Administration's Annual Reports.

III. OVERSEAS JOB PRICES AND THE FINANCIAL REQUIREMENTS OF OVERSEAS JOB APPLICANTS

A. Review of the Literature

Community-based surveys on the socio-economic impact of migration have provided some information on the level of placement fees. As these were done independently from each other, their terms of reference, objectives, definitions, and sampling designs are widely different. Still, despite these limitations, these studies indicate a rising trend of placement fees over time.

The Institute of Labor and Manpower Studies (ILMS) ran a survey in 1983 with a sample of 800 re-emigrating overseas workers and 150 wives or relatives of migrant workers who were then still working abroad (ILMS 1984). Their results show that 21 percent did not incur any costs in getting their jobs overseas, and another 29 percent paid less than the legal maximum of US\$63. Over 85 percent did not pay anything or paid less than US\$375, and the overall mean was calculated at US\$244.

The Social Research Center of De La Salle University sampled in 1982 three communities chosen for their high proportions of migrant households (Aquino and Go 1985). In this study, the average cost of emigration was estimated at US\$914.

A 1983 study by the Ateneo de Manila University based on interviews of 180 ex-overseas workers of two Pampanga barrios focused on the financial impact of the migration experience -- specifically, the extent of outflow and inflow of financial resources (Vasquez 1985). Close to 83 percent of the 180 workers paid more than US\$322. About 12 percent reported having paid between US\$322 - US\$538, 20.5 percent between US\$539 and US\$806, and 28.9 percent between US\$807 and US\$1,075. Vasquez concludes that the expenses for overseas employment are indeed very high, especially when compared to the average monthly family income of ₱500 or to the per hectare production of palay of ₱1,750.

The Department of Sociology of the University of the Philippines conducted in 1986 a survey of 536 returned workers (Arcinas et al. 1986). The findings show that 37 percent spent between ₱3,000 to ₱5,000, 30 percent spent between ₱1,000 to ₱3,000. The highest payment was ₱20,000. In addition, the workers had other substantial non-employment pre-departure expenses.

Unfortunately, these studies looked at the workers' and their families' expenditures for overseas employment without standardizing for the years of hire and departure of the workers. It is also important to analyze the costs vis-à-vis the occupational level and destination of the overseas workers.

B. Government Policy on Recruitment and Pre-Employment Expenses

Through its rule-making powers, the Philippine Overseas Employment Administration (POEA), the government entity supervising the national overseas employment program, regulates recruitment and placement prices, i.e., the maximum amounts that workers should pay as placement and pre-employment fees. In 1979, this amount was ₱300; from 1985 till the present, the maximum placement fee has been ₱5,000. Both amounts include all charges incurred in relation to overseas employment, including but not limited to passport, travel taxes, placement fees, etc.

Despite the official regulations and large media reporting that placement and hiring fees are much higher than the price limits set by POEA, there has been no effort whether by government or the private sector to determine and document systematically the prevailing prices paid by workers for their overseas jobs. This research effort is the first comprehensive assessment of placement and hiring costs for overseas employment using primary survey data in the Philippines.

C. SWS Surveys of Recruitment and Contractor Firms
and Newly Hired and Vacationing Overseas Workers

In October 1987, the research team surveyed 45 recruitment and contractor companies, 153 newly hired overseas workers and 183 vacationing and returning overseas workers. For this endeavor, the Philippine Overseas Employment Administration provided the use of its office facilities for interviews with overseas workers.

The surveys attempted to establish, among others, the following:

- Prevailing recruitment and pre-employment expenses in overseas employment;
- Cost-sharing arrangements for overseas jobs by employers and workers;
- Sources of financing of employment expenses by overseas workers; and
- Credit terms and conditions on loans related to pre-employment and recruitment expenses of overseas workers.

Forty five (45) recruitment agencies and contractors, chosen randomly from a stratified sample of different types of contractor-agents, were asked, after assurances of confidentiality of their responses and the independence of the research group, the different cost items that workers and employers had to pay in processing, documenting, and sending workers for overseas job sites. In order to facilitate recall, inquiry on costs focused on the active recruitment project at the time of interview.

In a similar fashion, two samples of workers were drawn: 153 newly hired workers (or new hires) (Glossary: 6) whose overseas contracts were being processed at the POEA and 183 vacationing workers (or early hires) (Glossary: 7) who were registering for travel tax exemption privileges under the Balik-Manggagawa program of the POEA. Newly hired workers are those only recently hired by their foreign employers, and who have not yet assumed foreign assignments. Vacationing workers are those who have recently returned from worksite for either a vacation or an emergency leave, and are intending to reassume their foreign assignments. Both types of workers are required to submit their work contracts to the POEA for processing.

The occupational and destination profile of both samples show very close approximations to the corresponding profiles of the total population of workers for 1987.

Workers were asked how much they paid as placement fees for their overseas jobs. Then, they were presented a checklist of cost items and asked whether payment for the listed items were part of the placement fees. If the workers paid additional amounts over the placement fees for certain items, their costs were added to total placement expenses.

D. Placement and Recruitment Fees: Confused Terminologies

There are many variations in placement and processing fees. While there are no standardized items and categories, in general, both agents and workers freely use terms such as processing fees and placement fees. Their meanings for these terminologies could be confusing. Agencies make a distinction between processing fees (Glossary: 8) and placement fees (Glossary: 9). Processing fees are out-of-pocket documentation expenses of every worker such as the POEA and Welfare Fund fees, medical examinations, visa costs, etc. These fees are paid upon selection by the employer or as the costs occur. Placement fees, on the other hand, are agency commissions and are paid upon the turn-over to the worker of his passport, visa, ticket, and other documentation. Workers do not make distinctions between placement and processing fees. They recall quite quickly what they personally pay agents. However, they are unable to price items that are paid by their employers, usually air tickets or visa expenses. Government considers all charges paid by workers in connection with their overseas employment whether processing or travelling as part of placement fees.

For purposes of this research, recruitment costs (Glossary: 10) include all payments for documentation, processing, and travel of hired workers, whether paid before departure or during the contract period. These costs are paid by either workers or their employers. When workers pay these costs whether fully or partially, they are called placement expenses. When employers pay these costs, these are referred to as hiring expenses. Advance payments by employers of recruitment costs which are later deducted from workers' salaries are treated as workers' expenses. These arrangements can be considered as credit facilities of employers rather than free placements as agents sometimes claim.

Personal costs of workers for meals, transportation, and follow-up are listed as expenses as well, but these are not included in the computation of placement expenses.

E. Prevailing Levels of Recruitment and Pre-Employment Expenses: The View of Worker-Respondents

In 1987, overseas workers, both land-based and seamen, pay on the average ₱7,844 for placement expenses. Personal costs average at ₱919. Land-based workers, in particular, pay ₱8,615 for placement expenses and an additional ₱906 for personal

expenses. The computation of these averages include those who do not pay placement and processing fees (Table 3.1).

In terms of range, overseas workers may pay from almost nothing up to amounts greater than ₱20,000. Seventeen percent (17%) pay less than ₱1,000; 11 percent pay between ₱1,000 - ₱5,000; 45 percent pay from ₱6,000 to ₱10,000; 15 percent pay from ₱11,000 to ₱15,000; 14 percent pay ₱15,000 or more. Only 28 percent of workers pay fees which are on or below the legal maximum (Table 3.2).

Fees vary according to type of contracting agent, destination, and occupation. Manning agencies charge the least, service contractors the most. High cost worksites are Hongkong and Singapore, the lowest are vessels plying worldwide routes. Among occupations, the variations are minimal except perhaps for seamen who pay the lowest fees (Table 3.1).

In general, workers pay in two installments. The first payment is made upon employer interview and selection or immediately after the worker is cleared medically. The first payment usually covers all direct expenses for personal documentation and government approvals. The second payment is made after visa release and confirmation of travel schedules. This last payment covers the services and overhead of the recruitment agencies. In some cases, the second payment can be done on a salary deduction basis within three to six months. This option is offered only in cases where the foreign employer agrees to deduct the necessary payments from the workers' salaries regularly. If so, workers are made to sign promissory notes.

F. Comparison of Overseas Wages and Recruitment Costs

The average overseas worker monthly salary is US\$460. On the average, professionals earn the most (US\$893) while domestic helpers earn the least (US\$205).

Using a ratio of placement expenses to monthly wages (in peso equivalent), the lowest ratio is for the professionals (0.55), the highest for domestic helpers (2.44). Professionals pay the equivalent of half a month's overseas salary for their recruitment expenses while domestic helpers fork out the equivalent of two and a half months' salary for their jobs (Table 3.3).

G. Cost-Sharing Arrangements and Agency Revenues

Figures on placement expenses given by agents and contractors come quite close to the workers' own assessments. Most differences are due to the agents' assumption that employer advances (which are to be repaid eventually by workers) are hiring expenses of employers and not workers' placement fees.

Table 3.1
 SURVEY OF NEWLY HIRED OVERSEAS CONTRACT WORKERS:
 MONTHLY DOLLAR WAGES AND PLACEMENT AND PERSONAL EXPENSES
 BY OCCUPATION, DESTINATION, AND AGENCY TYPE

	Wage (US\$) per month	Placement Expenses [Pesos per worker]	Personal Expenses
a. By Agency Type*			
Private Employment Agencies	477	9838	896
Construction Contractor	344	3429	592
Government	648	4413	1763
Manning Agencies	521	2783	1033
Service Contractors	342	10533	1024
Direct Hires	419	5159	741
b. By Occupation			
Entertainer	450	9604	214
Skilled Worker	431	7603	891
Professional	893	9788	1587
Office Staff	417	6075	100
Domestic Helper	205	9990	775
Seaman	503	2717	1006
Laborer	261	10550	653
c. By Destination			
Japan	485	8047	433
Saudi Arabia/Middle East	392	8299	905
Europe/Americas	954	5877	1453
Hongkong/Singapore	242	11911	1092
Worldwide	383	2066	800
Trust Territories	550	4005	0
Far East	327	5039	0
AVERAGE	460	7844	919
AVERAGE FOR LAND-BASED WORKERS	453	8615	906

* Agency types are described in contract migration literature. See Abrera-Mangahas, "Commercialization of Migration," SWS Occasional Paper, 1988.

Table 3.2
 SURVEY OF NEWLY HIRED OVERSEAS CONTRACT WORKERS: DISTRIBUTION
 OF PLACEMENT AND PERSONAL EXPENSES, OCTOBER 1987
 (In %)

Pesos	Placement Expenses (%)	Personal Expenses (%)
1,000 or less	17	75
1,001 - 5,000	11	22
5,001 - 10,000	43	3
10,001 - 15,000	15	
15,001 or more	14	
TOTAL	100	100
AVERAGE (Pesos)	7,845	919

Table 3.3
 SURVEY OF NEWLY HIRED OVERSEAS CONTRACT WORKERS:
 AVERAGE MONTHLY WAGES AND PLACEMENT EXPENSES, AND WAGE
 TO PLACEMENT EXPENSE RATIO BY OCCUPATION, OCTOBER 1987

Occupation	Average Monthly Wage		Average Placement Expenses	Placement Expense: Wage Ratio
	US\$	P		
Entertainer	450	9000	9604	1.07
Skilled Worker	431	8620	7603	0.88
Professional	893	17860	9788	0.55
Office Staff	417	8340	6075	0.73
Domestic Helper	205	4100	9990	2.44
Seaman	503	10060	2717	0.27
Laborer	261	5220	10550	2.02

The data also show the cost-sharing arrangements between workers and employers. Employers pay on the average P1,888 a service fees, i.e., agency commissions in addition to workers' travel fares and other expenses. In relation to overall recruitment costs, employers bear 48 percent of all costs.

Table 3.4
 SURVEY OF RECRUITMENT AGENCIES AND CONTRACTORS:
 AVERAGE WORKERS' AND EMPLOYERS' PAYMENTS AND AGENCY REVENUES,
 OCTOBER 1987

	Out-of- Pocket (a)	Workers' Payments (b) [In pesos]	Employers' Payments (c)	Revenues (d=b+c)	Agency Revenues (d-a)
<u>By Destination</u>					
Japan	7066	6942	5892	12834	5768
Middle East	11717	9438	6103	15545	3828
Europe/USA	19172	11290	12458	23748	4602
Hongkong/Singapore	6173	9233	1779	11011	4838
Seas	9657	984	12652	13637	3980
<u>By Occupation</u>					
Entertainer	10718	3986	10867	14853	4135
Skilled Worker	11587	9382	6286	15674	4086
Nurses	18498	13390	9975	23395	4877
Domestic Helpers	8354	10246	2697	12942	4589
Seamen	9657	984	12652	13637	3980
<u>By Agency Type</u>					
Pioneer Agency	10526	9160	5956	15116	4590
Upgraded Agency	11998	9553	7150	16714	4786
Construction	11620	7371	7960	15331	3711
Service	11514	10789	3322	14111	2597
Manning Agency	9657	984	12652	13637	3979
AVERAGE :	11467	8427	7297	15730	4263
AVERAGE FOR LAND- BASED WORKERS	11698	9381	6610	15998	4299

However, this share is significantly less than what employers may have paid 10 years ago. Workers, on the other hand, now pay 52 percent of all costs. In particular, the land-based workers' share of all costs is 57 percent (Table 3.5).

Percentage shares of placement expenses to recruitment costs change according to the workers' occupation, destination, and contractor type. The highest proportions are paid by workers bound for Hongkong/Singapore (82%), by domestic helpers (78%), and by service contractors (65%).

Table 3.5
 SURVEY OF RECRUITMENT AGENTS AND CONTRACTORS:
 AVERAGE SERVICE FEES FROM FOREIGN EMPLOYERS
 AND COST-SHARING ARRANGEMENTS BETWEEN EMPLOYERS AND WORKERS
 BY DESTINATION, OCCUPATION, AND AGENCY TYPE, OCTOBER 1987

	Service Fees (£)	Workers' Share of Payments (%)	Employers' Share of Payments (%)	Agency Share of All Payments (%)
<u>By Destination</u>				
Japan	2016	51	49	41
Middle East	1564	58	42	22
Europe/USA	2213	41	59	19
HK/Singapore	0	82	18	41
Seas	4440	13	86	26
<u>By Occupation</u>				
Entertainer	2751	32	68	29
Skilled Worker	1787	57	43	24
Nurses	1920	49	51	20
Domestic Helper	0	78	22	35
Seamen	4440	13	86	26
<u>By Agency Type</u>				
Pioneer Agency	420	61	39	29
Private Agency	1279	56	44	29
Service	4556	65	35	14
Construction	1060	46	54	22
Manning	4440	14	86	24
AVERAGE	1888	52	48	26
AVERAGE FOR LAND- BASED WORKERS	1561	57	43	26

Many employers (38%) pay for the air ticket and a portion of the placement fees; 21 percent pay only for the air ticket; 24 percent do not pay anything. There is still a significant percentage of employers (17%) who pay for all the expenses. When an employer pays for most expenses, the worker's expenses average £1,011. When the employer pays for nothing, the worker pays £17,482 (Table 3.6).

Table 3.6
SURVEY OF NEWLY HIRED OVERSEAS CONTRACT WORKERS: EMPLOYER SHARE
OF RECRUITMENT AND PRE-EMPLOYMENT EXPENSES, OCTOBER 1987

EMPLOYER PAYS FOR:	Number of Respondents		Worker Pays (Average) P
	No.	%	
1. Full (All) Expenses	26	17	1,011
2. Air Ticket and portion of processing/placement fees	32	21	6,500
3. Air Ticket only	58	38	10,351
4. Zero Expenses	37	24	17,482

Agency revenues are the residual when out-of-pocket costs are deducted from the sum of workers' and employers' payments. On the average, agencies earn about P4,000 per worker (Table 3.4).

There are only slight differences in earnings across agency types and across occupational groupings of workers. It is noticeable though that service contractors, though they charge the most, earn the least. These agents are new participants in the overseas employment program (only since 1982), and being young organizations, their operations may still be inefficient. Significant differences occur when workers' destination is considered (Table 3.4). Hiring for Japan, Hongkong, and Singapore is more lucrative, reflecting possible market segmentation. It is also in these three destinations that credit arrangements are more extensively available for workers.

Earnings from employment and recruitment are only one aspect of overall income of agencies. Agencies with linked transactions in travel, credit, medical, and foreign exchange have the largest earnings.

H. Historical Data on Recruitment Costs

Information provided by vacationing overseas workers shows a general upward trend for recruitment and pre-employment expenses through time. Workers' payments begin to rise in 1979, increasing sharply in 1982 and reaching the highest levels in 1985. There seems to have been a softening of prices in 1986 (Table 3.7).

These price levels are obviously shaped by the Middle East-bound worker movements which dominate the contract migration outflows. When the flows to the United States and Hongkong and

Singapore are isolated, the patterns of recruitment prices differ. Recruitment prices for Hongkong/Singapore and the Middle East continue to rise though at a slower pace. The large drop in prices has been in the United States market for nurses where pre-employment expenses have been cut by almost a third (Table 3.7).

Table 3.7
SURVEY OF RETURNING OVERSEAS CONTRACT WORKERS:
AVERAGE RECRUITMENT AND PRE-EMPLOYMENT EXPENSES
THROUGH TIME (1960-1986), OCTOBER 1987

Year	Number of Departures	P L A C E M E N T E X P E N S E S			
		All Destinations	Saudi Arabia	HK/ Singapore	USA
<u>Original Departures*</u>					
1960	1	0			
1963	1	0			
1968	1	0			
1969	1	0			
1974	1	0			
1975	1	0			
1976	2	225			
1977	5	0			
1978	2	0			
1979	12	1194	1353	-	-
1980	14	2020	2356	-	-
1981	28	1821	2227	1600	-
1982	30	3897	3343	5300	-
1983	33	5658	4170	6780	10793
1984	30	6421	6021	8975	21700
1985	50	13002	9312	12835	39913
1986	27	11707	11527	15513	27940

* In this survey, 183 returning workers were interviewed. Some of them had multiple placements. The data refers to all departures on new or original contracts.

By multiplying the average placement expenses with the total number of workers hired in the year and summing up the totals, we are able to estimate total workers' expenses and payments for overseas employment in the past eight years. From 1980-1987, \$14.4 billion was spent by workers for job placements, and in 1987 alone, the total placement expense amounted to \$2.9 billion. Interestingly enough, placement expenses had its highest level in

1985, the year when the number of new hire placements was at its lowest (Table 3.8).

Table 3.8
ESTIMATES OF PLACEMENT EXPENSES, PHILIPPINES, 1980-1987
(In ₱)

Placement Expenses Paid Through Time	Placement Fees (Ave.)	New Hires Total	Total Expenses
1980	2020	214,590	433 million
1981	1821	266,243	485 million
1982	3897	314,284	1.2 billion
1983	5658	291,197	1.6 billion
1984	6421	260,161	1.6 billion
1985	3002	232,391	3.0 billion
1986	11707	255,341	2.9 billion
1987	9381	314,250	2.9 billion
Total			14.1 billion

Source: Abrera-Mangahas, 1987.

I. An Analysis of Factors Contributing to the Rise
in Placement Fees

Rapidly rising recruitment and placement fees always evoke media outrage at what are called exorbitant burdens placed on overseas job aspirants. Unfortunately for placement agents, reports of high recruitment prices have been accompanied by stories of recruitment malpractices as in the many cases of swindling, fraud, and false promises.

The object of media criticism would either be the private recruitment companies, whether placement, manning, or contracting agents, who are perceived to place private self-interest (i.e., greed) above community good or government itself which is seen as an ineffective administrator of the maximum placement fee policy.

The government's maximum placement fee policy is an example of how misplaced good-doing can bring more harm than good. Essentially, the policy is flawed by its basic assumption that prices can be legislated or controlled. And unfortunately, this misinformation brings about false expectations by the public. In the process the positive contributions that private intermediaries bring into the recruitment process are diminished.

The main objection against private recruitment intermediaries has been the rising costs of recruitment. But the rising costs have been due more to the external and environmental factors rather than to the greed of the recruiters. The overseas employment industry is hardly cartelized, and it does not seem that prices are being manipulated or imposed by an exclusive group of participants. In agency interviews, respondents argue that rising costs are due to the following factors:

- (a) refusal of foreign employers and representatives to pay recruitment fees

With the termination of construction and other labor-intensive projects, the demand for workers in the Middle East countries fell greatly. On the supply side, however, more countries began to offer labor at reduced wages and low transaction costs. This imbalance has created a buyers' market for labor, with the buyers, in this case the foreign employers, dictating the prices paid for labor.

- (b) entry of foreign middlemen in the recruitment

The withdrawal of European and American companies from the Middle East labor market has opened labor recruitment to Arab middlemen and employers' representatives. These representatives have started asking local recruitment agencies for commissions between ₱500 - ₱1,000 for each job opening. In addition, all expenses of these middlemen in Manila during the recruitment period are paid for by agencies.

- (c) rise in marketing and representation costs

With cutthroat competition among local and other country recruiters, it is now necessary for local agents to directly negotiate with Middle East employers in their home countries. The cost of travel and living expenses while overseas adds to agency overheads. Each marketing trip requires a budget of at least ₱80,000.

- (d) increase in documentary requirements of foreign governments and their embassies

The imposition of new documentary requirements and higher processing fees by foreign governments and embassies have also contributed to the rise in costs. These new requirements include, among others, the authentication of education, employment, and medical certifications of hired workers (this requirement, imposed in the mid-80s, added ₱1,000 to workers' direct costs); the requirement of an AIDS test for all outgoing workers (the test, required since 1985, costs about ₱400); rise in visa fees by most embassies (this is due largely to the devaluation of the peso in the mid-80s). When the embassy of the Kingdom of Saudi Arabia imposed the use of only three airlines

for travel to Saudi Arabia, these airlines raised travel ticket prices for contract workers. In the open competitive market, travel fares to the Middle East countries, offered by other airlines, cost much less.

- (e) increase in documentary requirements and imposition of new standards by the Philippine government

Since 1983, the Philippine Overseas Employment Administration has enacted a number of rules governing the recruitment for overseas employment. These include increases in the amount of cash deposited without interest by the agencies with the POEA; increases in the amount and premiums of surety bonds which is another requirement of the POEA; imposition of additional documentary requirements by the POEA which increases both the cash outlays and processing time for contract approvals; increases in POEA processing fees; and the additional risk imposed on the agencies who are required to have joint and sole liability for all workers' contracts processed for foreign employers. The joint and sole liability clause of the POEA rules means that recruitment agencies and contractors are jointly responsible with their foreign employers for the implementation of foreign job contracts. In cases of unjust termination, these unpaid salaries and other unused benefits are charged to the foreign employers, and in cases of the employers' failure to pay, recruitment agencies assume the costs. For some, these costs wipe out full-year incomes from recruitment.

- (f) general inflation and devaluation effects

High inflation in the mid-80s did not spare the recruitment agencies. The rise in overhead costs for rentals, supplies, and transportation have affected the agents. The devaluation in the years 1983-1985, while it may have raised the peso value of foreign incomes, also raised the prices of facilities heavily used in recruitment such as communication, travel, telex, and telegram fees.

J. A Comparison with Other Labor-Sending Countries

The high cost of contract migration which is largely borne by the hired worker is a condition common to many Asian labor-sending countries. The decline in demand for construction labor in the Gulf countries, the subsequent price-cutting efforts of international recruitment agents in both labor-sending and labor-receiving countries as well as the increasing and more costly government regulations on recruitment agencies have transferred the cost burden to hired workers.

In assessing the financial cost of migration among six countries, the Asian Regional Program on Labor Migration (ARPLM) of the International Labour Office (ILO 1988) shows that the Philippines and Sri Lanka have the lowest average placement

expenses borne by workers among the labor-sending countries (Table 3.9).

Table 3.9
FINANCIAL COST OF EMIGRATION, BY COUNTRY

Country/Year	Cost (in US\$)
Bangladesh (1986)	1,000-2,000
India (1985)	800
Pakistan (1983)	91.7
Philippines (1987)	400
Sri Lanka (1986)	100-320
Thailand	900-1,200

Source: ILO/UNDP, 1988. Agenda for Policy: Asian Migration Project.

However, considering that the Philippines has a different occupational and skill mix of hired workers (the mix has a significant proportion of seamen and nurses who pay much less than other types of workers); a variety of job sites (placement fees for the U.S., for example, have recently plunged); and a range of recruitment intermediaries (including contractors and manning agencies who charge considerably less than recruitment agencies), the use of average placement fees across countries may be misleading. It would be more useful to evaluate the fee levels and wages for a standardized occupation, destination, and occupation and to establish the process real wage receipts of the hired workers.

IV. FINANCING OVERSEAS EMPLOYMENT: SELF-FINANCE, EMPLOYER RELATIONSHIP, AND BORROWINGS

Despite the rising prices for overseas jobs and the country's recent economic gains, the demand for overseas work remains high.

Media reports emphasize the large-scale abuse and fraud in overseas recruitment and employment including the so-called exorbitant fees charged by recruitment agencies, and the deception of job applicants with non-existent or substandard foreign jobs. Journalists may have focused attention on a few

individual cases, but there is insufficient interest in getting a national picture of how workers and their families actually finance overseas employment. For example, much is made over the loss of lands and carabaos sold by workers to pay for placement, when even the limited available information from community studies would show that land and carabao financing for overseas employment is clearly insignificant.

A. Literature Review

The only community study that analyzed the financing of overseas employment uses data from a survey of 180 workers or household heads in two Pampanga rice-producing and low-income villages (Vasquez 1985). The sample included workers who were either awaiting contracts and workers who have returned.

For these villages, the financing of overseas employment came primarily from borrowings. Eight out of ten (81.1%) respondents exclusively relied on loans. In addition, 10 percent both borrowed and sold property and another five percent supplemented personal savings with borrowings. Small proportions of workers self-financed with the use of savings (3.3%) and the sale of property (0.6%).

Loans were provided by relatives (50%), moneylenders (38.9%), and banks (6.1%). The lenders came from the same barrio (42.2%), from another barrio but in the same town (38.9%), and from another town or city (16.1%).

As for annual interest rates, 27.7 percent of the loans were interest-free; 29.5 percent had preferred rates of 10 percent and less a year; 10.4 percent paid a yearly interest rate between 11 percent-30 percent a year; and the balance of 32.3 percent carried rates of 120 percent a year. Unfortunately, interest rates during the early 1980s were busily fluctuating, and the published text and tables of this study do not say when the workers left or when the loans were taken.

In 1984-1985, a University of the Philippines research team surveyed 506 workers from Metro Manila and four Luzon provinces on the various impact of overseas contract migration (Arcinas et al. 1986). Respondents consisted of 476 returned workers who completed at least one Middle East contract and 30 returnees who were prematurely terminated. Workers sampled in this study used loans (53%), savings (41%), and the mortgage of properties (3%) in order to finance their overseas employment. The most important fund sources were interest-free family loans (39%), personal savings (37%), and interest-bearing loans (16%).

Overall, 75 percent of the worker-respondents of the U.P. study were workers who borrowed to finance overseas employment. In general, the borrowers obtained loans on friendly terms. Eighty percent (80%) of them got interest-free loans, 10 percent paid interest rates of 10 percent or less, while nine percent

agreed to interest rates of 10 percent-20 percent. Four respondents paid an interest rate of 80 percent. Unfortunately, the published text and data tables do not specify whether these interest rates are on a monthly or annual basis nor when the loans were taken.

On the other hand, the value of debt and its repayment is demonstrated in the high priority workers and their families give to its repayment in the allocation of their overseas remittances.

The payment of debts ranked an important third in the families' priority allocation of overseas remittances in an early 1981 survey of government-placed workers (Gamboa and Cuayo 1982). The purchase of basic home goods such as food and clothing ranked first, followed by expenses for education and shelter.

Two years later, in a study of three Laguna barrios (Go, Aquino et al. 1985), debt servicing ranked second in the priority use of workers' earnings. Superseded only by food and clothing expenses, debt repayment outranked all other expenses, even that for education and shelter.

The reason why debt servicing is a family's high priority may be due to the very high interest loans in the mid-1980s. The U.P. study of 1984-1985 using findings from a few in-depth interviews of beneficiaries says that the biggest immediate problem of workers' families is the repayment of the "5-6" loans (the term means that for every ₱5 borrowed, the borrower pays back ₱6; the computation of the interest rate depends on the maximum length of time for repayment). The family wanted to pay these loans as quickly as possible, even if other expenses were more pressing, in order to diminish their increasing debt burden.

It also seems easy to assume that debt servicing is directly related to the amount of debts incurred in getting the overseas job. However, possibly, the debts being serviced may in fact be old debts. In a 1982 study by the Institute of Labor and Manpower Studies using a sample of 800 returned workers, the 26 percent of the respondents were already in debt before overseas employment compared to the only 15 percent during overseas employment (ILMS 1984).

B. Sources of Funding for Overseas Employment

Using the random sample of 153 newly-hired workers (or those who are beginning overseas contracts on a first-time basis with their employers), respondents were asked after they had listed their placement expenses, how they paid for these and other related overseas job expenses. Aiding the respondents with a checklist of fund sources, the interviewers asked, going through the items one at a time:

"How did you pay for the expenses related to your overseas employment, did you:

- Use personal savings
- Sell assets
- Borrow from relatives and friends without interest
- Borrow with interest
- Pawn assets at pawnshops

or did:

- your employer or your agent advance the placement expenses which you will repay, eventually?
- or others (pls. identify)."

If the response is "yes" to any item, the interviewer asked, "How much?" During the interviews, workers named additional sources in the "others," among which are: "The employer paid for all the expenses," and "Borrowed without interest but with collateral."

Those respondents who borrowed commercially, that is, with interest, with collateral, or obtained funds from employers or agents as advances were then further asked for the terms and conditions of these commercial borrowings including: lender category; loan purpose; loan size; interest rate; maturity period; number of payments; manner of collection; necessity of guarantors, documents, or collaterals, among others.

C. Fund Sources of Newly Hired Workers

Most newly hired workers tapped several fund sources in order to pay for their large placement and personal expenses in overseas employment. It is not uncommon, for example, for one worker to withdraw his savings, sell his stereo, and still borrow small-sized loans from two different moneylenders. Even in cases where employers fully pay for the placement expenses, the workers still needed to borrow or sell belongings for other personal expenses, usually family living expenses during the job search.

Of the 153 new hires interviewed for this survey, workers either financed themselves exclusively with personal savings and sale of personal assets (26.7%), relied only on multiple borrowings from several lenders (38.6%), or used a combination of self-finance and borrowings (24.8%). A small percentage (9.8%) did not require any financing since their employers paid for all their expenses (Table 4.1). It may be useful at this time to distinguish employers who pay for all the placement expenses without expecting repayment, with employers who advance the costs of placement and other expenses expecting a repayment through a salary deduction scheme. The first can be termed employer sponsorship and the second employer credit.

New hires raised funds from 227 different personal and lending sources to finance their overseas employment. This averaged at 1.5 source per worker (Table 4.1).

Table 4.1
HOW NEWLY HIRED OVERSEAS CONTRACT WORKERS RAISED THE MONEY
TO PAY FOR EXPENSES, 1987

	Number of workers	% of workers	No. of Transactions
<u>Self-Finance</u>			
The worker withdraws his savings and/or sells his belongings	41	26.7%	41
<u>Employer Sponsorship</u>			
The worker has no extraordinary needs because his employer will pay for all his expenses with no demand for worker repayment.	15	9.8%	15
<u>Borrowings</u>			
The worker borrows from many different lenders or gets a cash advance from his employer or agent	59	38.6%	81 loans
<u>Mixed Savings and Borrowings</u>			
The worker combines savings, sale of his belongings and also borrows money from lenders, his employer and his agent.	38	24.8%	52 loans 38 self-fin. activities
Total	153 workers	100.0%	227 transactions

SELF-FINANCE AND EMPLOYER SPONSORSHIP IN OVERSEAS EMPLOYMENT

Self-finance, or the use of personal resources like savings and sale of belongings, provided a significant third (34.8%) of total fund sources in 1987 and was used by 51.6 percent of all workers (Table 4.2). Employer Sponsorship, despite the assertion of many recruitment agencies and contractors that this source has completely dried up, contributed 6.6 percent of total fund sources in overseas employment and enjoyed by 9.8 percent of all workers. The largest portion of fund sources were borrowings and credit advances. It constituted 58.6 percent of the overall fund sources for overseas employment and resorted to by 84.3 percent of all workers (Table 4.2).

Workers' Personal Savings and Sale of Assets: Self-Finance

Personal savings would naturally be the worker's first recourse. And even in cases where employers pay for all placement expenses (17% in Table 3.6), the worker will still spend some of his personal resources for overseas employment expenses.

Since a majority of the overseas workers come from blue-collar job categories, and though many are employed prior to overseas employment, only 48.4 percent of the newly hired workers cited personal funds as a significant fund source for overseas employment, of which 26.7 percent raised funds exclusively by self-financing (Table 4.1).

In another form of self-finance, 3.2 percent of the workers sold personal belongings (Table 4.2). In the five such cases, the most expensive item was a color TV set worth ₱7,000, followed by a videorecording machine worth ₱5,000. Less expensive items were jewelry (₱1,700), piglets (₱1,500), and a black and white TV set (₱1,200).

BORROWINGS AND SALARY ADVANCES

Borrowings and salary advances from employers and agents constitute the bulk of the credit market for overseas employment. Eighty-four percent (84.3%) of all workers took either loans, salary and credit advances, or a combination of the two (Table 4.2).

A. Family Members and Friends, Charging No Interest

Overseas employment is largely fueled by family finance. Forty-one percent (41.2%) of the respondents borrowed from family members and friends without interest (Table 4.2).

Table 4.2
DIFFERENT FUND SOURCES OF NEWLY HIRED
OVERSEAS CONTRACT WORKERS, 1987

Source	Number exporting	Percentage to total # of sources n=227	Percentage of workers using source n=153
<hr/>			
<u>Self-Finance</u>		(Multiple Response)	
Personal Savings	74	32.6%	48.4%
Sale of Assets	5	2.2%	3.2%
<hr/>			
Total for Self-Finance	79	34.8% of fund sources	51.6% workers
<hr/>			
<u>Employer Finance</u>			
Employer Sponsorship	15	6.6% of fund sources	9.8% of workers
<hr/>			
<u>Borrowings and Credit Advances</u>			
Borrowings:			
Family, Non-interest	63	27.8%	41.2%
Family, with Interest	22	9.7%	14.3%
Prof. Moneylender	13	5.7%	8.5%
Gov't Fin. Institution	4	1.8%	2.6%
Pawnshop	1	.4%	.7%
Private Credit Firm	1	.4%	.7%
<hr/>			
Sub-Total	103	45.8%	65.4%
Credit Advances:			
Employer	21	9.3%	13.7%
Agent	8	3.5%	5.2%
<hr/>			
Sub-Total	29	12.8%	18.9%
<hr/>			
<u>Total for Borrowings and Credit Advances</u>			
	133 loans	58.6% of fund sources	84.3% of workers

Providing an overseas employment loan for a family member and friend is, in a practical way, an investment or an earning opportunity. Family members and friends who provide interest-free loans are either those who are very closely related to the workers like parents, brothers/sisters, and in-laws, or those who are better off in the community. Both lend towards the long-term self-sufficiency of the worker and his/her family.

Close family relatives will obviously benefit from the worker's overseas employment. As the beneficiaries of remittances, these members expect an improvement in their economic well-being. In two cases where the close family lenders were already working overseas, the financing of the sibling's overseas employment is the sister's way of repaying the initial financial sacrifice of their family.

The better off family members and friends, while they may not be closely related to the worker, are expected to assist their extended family and community system in times of exceptional need as in weddings, funerals, and medical emergencies. In return, these family members get benefits over and above the loan's repayment or possibly default. These lenders enjoy community prestige, loyalty, and in times of the need (for example, in political exercises), these lenders can count on the support of their extended families.

B. Family Members and Friends, Charging Interest

Fourteen percent (14.3%) of workers borrowed with interest from family members and friends (Table 4.2). These family commercial lenders impose similar terms and conditions as the professional community lenders, and differ only in that (a) they are usually personally known by the workers and their families; and (b) lending is often not a major family income source.

There are five cases of relatives and friends who did not charge interest in the usual sense. They instead required collaterals which they intended to use, such as land, jewelry, or a color television set. The interest rate, in these cases, equal the rental value of the collaterals.

C. Professional Community Lenders

Within communities there are lenders who provide financing for many needs including overseas employment. These lenders are not supervised by the Central Bank, and unlike other lenders described in this section, engage in lending as a primary or significant income earning activity.

Among all workers, 8.5 percent used the services of these professional moneylenders (Table 4.2). Many moneylenders are the traditional long-time lenders in their communities. As the demand for loans for overseas employment grew, they expanded

their portfolio to include overseas lending. In so doing, the lenders revised some loan conditions to suit the needs of overseas workers and their families (see Case Studies of Professional Moneylenders in Overseas Employment, Chapter 6).

D. The Government Lenders: The Social Security System and the Overseas Workers' Welfare Administration

Government lending for overseas employment is a marginal funding source for overseas workers, accounting for only 1.8 percent of all funding transactions in overseas employment, and used by 2.6 percent of all workers (Table 4.2).

An early government credit program for overseas contract workers was that initiated by the Philippine National Bank (PNB), a government commercial bank in 1982. This small lending program for overseas workers, funded at ₱5 million was discontinued after a year. The scrapping of the program was mainly caused by the start of the 1983 recession, though the poor repayment rates of the overseas workers was also a significant factor.

At present, the lone government lending program for overseas workers is supervised by the Overseas Workers' Welfare Administration (OWWA) of the Department of Labor.

The OWWA, an attached agency of the Department of Labor and Employment was established in May 1980 primarily to provide welfare services and other forms of assistance to overseas contract workers and their families. OWWA administers the WELFUND which is built up from mandatory contributions of employers and overseas workers. While under the OWWA charter, overseas workers (with the exception of seamen) are not direct contributors to WELFUND. In practice, most workers pay the WELFUND contributions as part of their processing and placement fees. In 1987, the WELFUND had a total accumulated collection of ₱750 million.

The Overseas Workers' Welfare Administration presently offers two types of loans for overseas contract workers and seamen: the pre-departure loan and the family assistance loan.

1. Pre-Departure Loan for Overseas Workers

The pre-departure loan is a financial assistance program for newly hired contract workers aimed at providing overseas workers with a certain amount to help them defray documentation expenses prior to departure.

The loan is extended to newly hired contract workers with valid employment offers, one recorded paid contribution to the Overseas Workers Fund, and confirmed departure schedules.

The maximum loanable amount is ₱5,000. Loanable amounts are calculated on the basis of foreign wage offers. The smallest possible loan is ₱2,500, based on a foreign wage offer of US\$199 and below.

The loan is payable within six months from date of release, including a one month grace period. The interest is free, provided that payments are made within the scheduled installment dates.

An administrative handling charge of four percent is deducted from loan proceeds. Failure to pay two consecutive installments renders the entire obligation due and demandable. A penalty charge of one percent per month is imposed on unpaid amortization/due obligation.

In order to avail of the loan, the loan applicant is required to submit photocopies of his Travel Exit Pass, passport/seaman's book, visa, and plane ticket, all certified as true copies by the licensed agency; and an original copy of an income tax return of a lawfully and gainfully employed co-maker. The tax return copy of the co-maker can be substituted with a certification of employment and employee's ID. The co-maker can be any person, except a spouse, of good standing and has the capacity to pay. Salary of the co-maker should not be less than ₱15,000 per annum.

Workers apply directly to the OWWA offices in Intramuros. Processing time is approximately seven working days.

According to the OWWA manager, the collection rate is 76-80 percent.

2. Family Assistance Program for Overseas Workers

The Family Assistance Program is designed to assist the family of the overseas worker defray exigent and/or emergency expenses.

The loan is extended to beneficiaries of overseas contract workers and seamen with approved overseas work contracts and who have at least one recorded paid contribution to the Welfund. However, the loan requires the consent of the overseas-based contract worker.

Borrowers can borrow up to ₱5,000, depending on their monthly overseas wage. The loan is payable within a period of ten months at eight percent interest per annum. In addition, OWWA charges a two percent administrative handling fee.

A penalty of one percent per month is imposed on unpaid amortizations and arrears. Failure to pay two consecutive installments renders the entire amount due and demandable.

In our surveys of new hires, 2.6 percent of the surveyed workers used government funding sources. The worker-respondents were completely unaware of OWWA's lending programs. Two interviewed workers, upon hearing of the OWWA program, eventually availed of its lending services. The lack of awareness and subsequent non-availment of OWWA loan packages is due to relatively small budget provided for these programs. In 1987, the OWWA Board allowed only ₱16 million for these overseas worker programs.

The newly hired workers instead identified the Social Security System, a government social insurance agency which covers workers in private enterprises, as their funding source. These workers used their membership privileges to borrow small low-interest loans meant for members' emergencies. These loans merely supplemented the workers' more substantial borrowings elsewhere.

E. Pawnshops and Private Credit Firms

The increase in the number of pawnshops and private credit firms are the beneficial results of the government's credit liberalization policy of the 1980s. That they even appear in the survey results (together, 1%, Table 4.2) is a manifestation of their possibly increasing importance in the future.

F. Employer and Agent Credit Advances

Credit advances from employers and agents are an important aspect of the financial market for overseas workers, accounting for 12.8 percent of all funding sources, and used by 18.9 percent of all newly hired workers (Table 4.2). These credit arrangements, which are tied to employment contracts, have been used in the past mainly for travel expenses of workers bound for the United States and Europe. However, with placement costs rising and the credit market tightening almost simultaneously, employers and agents in the Middle East and Southeast Asia have been pressured to provide interim financing for both placement and travel expenses so that departures for overseas job sites are not disrupted.

Employers and agents who combine credit arrangements with overseas work contracts say that these interim facilities are on the long run less costly than replacing hired workers who are unable to leave for overseas jobs because of lack of funds. When workers cannot pay, employers need more time not only to find suitable replacements, but also to prepare new work and travel documents for the replacements. The additional documentation time endangers visas (which have a limited effectivity period), and harms project timetables. Agents also worry about their reputation with foreign clients as dependable labor suppliers.

**A COMPARISON OF SOURCES OF FUNDS FOR OVERSEAS EMPLOYMENT:
THE VIEW OF EARLY HIRED (VACATIONING) OVERSEAS WORKERS, 1987**

For historical information on the fund sources for overseas employment, we interviewed vacationing overseas workers about to return to their job sites. Vacationing overseas workers who intend to return to their overseas jobs arrange for travel tax exemption privileges at the Balik-Manggagawa Division of the Philippine Overseas Employment Administration.

During a random selection of workers within different strata of occupations and job sites, 183 workers were interviewed during a two-week period in April 1987. The profile of respondents was similar to the previous year's (1986) profile of vacationing overseas workers.

Like the newly hired workers, respondents were interviewed on their overseas placement and travel expenses and how they raised funds for their overseas employment. On the question of fund sources, the interview question and technique were similar to the methods used on the new hires. However, in the case of the earlier hired workers, interviewers asked for information on all their original or first-hire contracts.

The vacationing workers had at least one year of overseas employment experience. In some ways, the experience factor makes for a difference in response. Workers, on hindsight, are better equipped to review their first overseas work experiences. In this data set, for example, there were four cases when workers learned of their placement and travel debts only at worksite. On the other hand, because of the lapse of months and years, these respondents had problems with recalling specific amounts and figures.

Some vacationing workers have had multiple overseas contracts with several employers while others have renewed and extended contracts with their initial employers. The sample of 183 workers carried information on 243 contracts with different employers (Table 4.3).

The sample has been limited to workers who left on their first contracts between 1980-1985. We would have preferred two subsets, workers who first left from 1980-1982, and those who first left between 1983-1985, but putting together a sample of the earlier years with an occupational and job site profile of those years became too difficult. With overseas contracts lasting only from one to three years, few workers of the earlier years were still registering with the POEA.

Table 4.3
HOW EARLY HIRED (VACATIONING) OVERSEAS CONTRACT WORKERS
FINANCED THEIR FIRST CONTRACTS (1980-1985)

	Number	% of Contracts	Number of Transactions
<u>Self-Finance</u>			
The worker withdraws his savings and/or sells his belongings/combines w/employer payments	52	21.4	52
<u>Employer Sponsorship</u>			
The worker has no extraordinary needs because his employer will pay for all his expenses with no demand for worker repayment.	52	21.4	52
<u>Borrowings</u>			
The worker borrows from many different lenders or gets a cash advance from his employer or agent	110	45.3	141 loans
<u>Mixed Savings and Borrowings</u>			
The worker combines savings, sale of his belongings and also borrows money from lenders, his employer and his agent.	31	12.8	31 self-fin. activities
Total	183	243	307
	First hire contracts	100.0	tran- sactions

For their 243 original contracts, workers identified 307 fund sources, including employer sponsorship. This averaged to 1.3 source per worker. The lower ratio of fund source per worker implies both a lower per capita recruitment cost and greater willingness on the part of employers to sponsor workers' recruitment expenses fully or partially pay for overseas employment expenses.

A. Types of Fund Sources

Comparing the expenses of early hired (vacationing) workers with newly hired workers, workers' fund sources have remained essentially the same except for two major features: (1) the elimination or disappearance of airline financing; and (2) introduction of new fund sources, i.e., the pawnshops and private credit firms. Otherwise, employer sponsorship, family relatives and friends, the moneylenders, government institutions, even employers, and agents were mentioned by the early hires as main sources of funds for overseas employment (Table 4.4).

Airline financing of travel expenses of overseas contract workers was available in the late 1970s and early 1980s. According to a few pioneer recruitment agencies, three airlines, Pan-American, Philippine Airlines, and Northwest Airlines, offered "Fly Now, Pay Later" credit packages to contract workers with work visas to the United States. Workers repaid their loans directly to the airlines' US offices. However, during the period of controlled foreign exchange prices and the drying up of the formal credit market, airline financing for contract employment disappeared.

B. Size and Nature of the Contribution

Although the fund sources of the early hires and the new hires are essentially unchanged, the significance and contribution of each fund source has remarkably changed. In comparing both, the historical changes in the size and contribution of the fund sources can be seen in Table 4.5.

Highlights of these changes are:

1. The decline of employer sponsorship

In the early years of overseas employment, when most of job placements were for Europe, the United States, and Asia, workers in general paid for their own placement and employment fees. Placement-free recruitment was exceptional, except for multinational recruitment and cross-posting. But with the rush of recruitment to the Middle East, employers began to assume the full costs of placement and recruitment of their hired workers. With the need to mobilize thousands of workers within a short period and the relative abundance of Arab funds, employer sponsorship of placement and travel expenses of workers became the standard for overseas employment.

Table 4.4
FUND SOURCES OF EARLY HIRED (VACATIONING)
OVERSEAS CONTRACT WORKERS (1980-1985)

Source	Number of Workers Reporting	% to Total Number of Sources n=307	% of Workers Using Source n=243
			(Multiple Response)
<u>Self-Finance</u>			
Personal Savings	80	26.6	32.9
Sale of Assets	3	1.0	1.2

Total for Self-Finance	83	27.6 of fund sources	34.1 1st hires
<u>Employer Finance</u>			
Employer Sponsorship	52	16.9 of fund sources	24.1 of 1st hires
<u>Borrowings and Credit Advances</u>			
Borrowings:			
Family, non-interest	104	33.9	42.8
Family, with interest	25	8.1	10.3
Prof. Moneylender	17	5.5	7.0
Gov't Fin. Instit'n	6	2.0	2.5

Sub-Total	152	49.5	62.6
Credit Advances:			
Employer	10	3.3	4.1
Agent	5	1.6	2.0
Airline	5	1.6	2.0

Sub-Total	20	6.5	8.2
<u>Total for Borrowings and Credit Advances</u>			
			70.8 of workers
			56.0 of fund sources

Table 4.5
COMPARISON BETWEEN EARLY HIRED (VACATIONING)
AND NEWLY HIRED OVERSEAS CONTRACT WORKERS' USE OF FUND SOURCES
(In %)

	EARLY HIRES 1980-1985	NEW HIRES 1987

TYPES OF FUND SOURCES		
I. Employer Sponsorship	24.1	9.8
II. Self-Finances		
1. Personal Savings	32.9	48.4
2. Sale of Assets	1.2	3.2
Sub-Total	34.1	51.6
III. Borrowings and Advances from:		
1. Family without interest	42.8	41.2
2. Family with interest	10.3	14.3
3. Professional moneylenders	7.0	8.5
4. Gov't Financial Institution	2.5	2.6
5. Pawnshop		0.7
6. Credit from Employer (Advances)	4.1	13.7
7. Agent (Advances)	2.0	5.2
8. Airlines (Advances)	2.0	
Sub-Total for Borrowings and Advances	70.8	84.3

With the changing conditions in the 1980s, the costs of recruitment and placement were once again slowly shifted to the workers. Among the early hires of the 1980-1985 period, 24.1 percent of all sampled workers enjoyed free placement and recruitment for overseas employment. In contrast, only 9.8 percent of the 1987 new hires benefited from free placement.

An interesting sidelight to this historical trend in placement fees is the reversal of the trend in fee payments for

US placements. With the acute shortage of nursing personnel in the US and the limitations in nurse supply brought about by a foreign nurse licensure program (the CFGNS exams), overseas recruitment and placement expenses of nurses are now fully borne by the American employers.

2. The increase in both self-finance and borrowings

To compensate for the withdrawal of employer sponsorship, more workers have shifted to an increasing use of personal savings and borrowings and credit advances.

Self-finance rose from 34.1 percent to 51.6 percent. The use of personal savings rose from 32.9 percent among early hires to 48.4 percent among the new hires. Sale of assets, an insignificant proportion for both groups of workers, also rose slightly from 1.2 percent to 3.2 percent.

One explanation of how workers are able to finance themselves from personal savings is the higher share of ex-overseas workers among the new hires. Workers who return upon the completion of their overseas job contracts spend a significant portion of their savings in the search for new overseas employment. In the new hires sample, one out of four has had previous overseas experience.

Borrowings and credit advances increased even more dramatically. Using multiple fund sources, 70.8 percent of the early hires resorted to borrowings or credit advances. Among the 1987 new hires, the percentage rises to 83 percent.

3. The continuing significance of the family share in overseas employment financing, whether with interest or not

Family has always been a significant fund contributor to overseas employment financing. As explained earlier, family members benefit as well from the improved economic status that can be obtained from an overseas job opportunity. The share of family-sourced financing for overseas employment, though still large, seems to have stabilized.

While the percentage of workers who use family financing, whether with interest or not, slightly increased from 53 percent in 1980-1985 to 56.1 percent in 1987, there is a slight reduction of family financing without interest, and, on the other hand, an increase in commercial family financing (or borrowings with interest). The number of workers using non-interest family loans declined from 42.8 percent to 41.21 percent, and those using interest bearing loans increased from 10.3 percent to 14.3 percent.

4. The significant increase in share of employer and agent credit advances, notwithstanding the decline of airline financing

Among the early hires, only 8.1 percent of the workers obtained employer, agent, or airline financing. With the new hires, a substantial difference is noticeable. Already, 18.9 percent of all workers had employer and agent financing, notwithstanding the decline of airline financing which was used by two percent of the early hires.

5. The rise in loan size

The average loan size borrowed by the early hires has successively risen from 1980-1985. Starting from ₦2,214 in 1980-1981, the average loan of early hires rose to ₦6,422 in the 1982-1983 period, and increased by 63 percent in 1984-1985 to ₦10,441.

Table 4.6
LOAN SIZES OF EARLY HIRED (VACATIONING) OVERSEAS
CONTRACT WORKERS, 1980-1981, 1982-1983, AND 1984-1985

Period	No. of Observations	Loan Size (₦)
1980-1981	7	2,214
1982-1983	12	6,422
1984-1985	35	10,441

V. THE CREDIT MARKET FOR OVERSEAS EMPLOYMENT: SIZE, NATURE, TERMS, AND CONDITIONS OF LENDING

With 84 percent of newly hired overseas workers dependent on loans and credit advances to finance overseas employment, the credit market for overseas employment is alive and well.

As shown in the previous chapter, this credit market involves a wide range of lenders, from family relatives, professional moneylenders, to foreign employers, and agents who tie credit arrangements with overseas employment contracts.

The credit market for overseas employment is significantly large, and based on the findings of our survey of borrowers, it

can be estimated that the total volume of loans in this market in a single year (1987) amounted to ₦1,000,700,000.

A. Estimating the Size and Extent of the Credit Market for Overseas Employment, 1987

In 1987, 314,250 workers left for overseas contracts on a new-hire status. How much credit did these workers use?

1. Given:

Some 90.2 percent of newly hired workers need to raise personal and borrowed funds for their overseas employment expenses. The remaining 9.8 percent workers were fully sponsored by their employers.

Result:

Some 283,454 new-hire workers in 1987 raised funds for their overseas employment.

2. Given:

Workers raised funds from many sources, averaging 1.54 source per worker.

Result:

The 1983 newly hired workers who needed financing tapped 436,519 fund sources.

3. Given:

Some 36.6 percent of fund sources for overseas workers come from personal savings and sale of assets. The remaining 63.4 percent come from loans and credit advances.

Result:

Some 276,753 sources consisted of borrowings and credit advances of employers and agents. These fund sources form the credit market for overseas employment.

4. Given:

The credit market for overseas employment consists of many lenders. It is dominated by informal credit sources whose credit transactions equal to 95.4 percent of overall credit transactions in overseas employment. By multiplying the percentage share of the credit source to total credit transactions with the estimated number of credit transactions in 1987 (276,753 credit transactions), we obtain an estimate of the number of transactions per credit source.

Given:

Each credit source has an average loan size. Multiplying the average loan size with the number of credit transactions per category, we can compute the fund volume per source.

Given:

The summation of the individual volumes is the crude overall size of the credit market for employment. In 1987, the estimated total volume of credit provided to overseas workers is ₱1.75 billion (Table 5.1).

1. Formal and Informal

As with the rest of the country's financial system, the credit market for overseas employment has both the formal agencies and institutions which are governed and covered by the regulations of the Central Bank, and informal institutions which escape supervision and regulation. Following this definition of formality and informality, the formal sources include government financial institutions, commercial, rural and savings banks, pawnshops and lending investors (credit agencies) registered with the Central Bank. Among the informal sources are relatives and friends who may or may not lend with interest, foreign employers, local agents, and all others who are not supervised by the Central Bank.

As seen in Table 5.1, both in terms of number of transactions and volume of loans, the credit market for overseas employment is almost completely dominated by informal lenders. This dominance illustrates the capability of informal lending to respond more quickly to new credit opportunities and to substitute where formal facilities are not available. Informal financing is available from a number of lenders and on the average these sources provide larger-sized loans (₱6,590) compared to formal sources (₱2,217). Overall, informal sources supplied ₱1.72 million in credit compared to ₱27.3 million provided by the formal sources.

2. Commercial and Noncommercial

In terms of frequency of use, commercial lending has overtaken noncommercial lending in overseas employment. A little more than half of total loans (52.6%) are interest-bearing while 47.4 percent are interest-free. However, though there are fewer noncommercial loans, the average size of these loans is larger (₱6,787) compared to commercial ones (₱6,038) (Table 5.2). Thus, in terms of volume, commercial lending is about equal to non-commercial lending.

Table 5.1
 SIZE ESTIMATE OF THE CREDIT MARKET
 FOR OVERSEAS EMPLOYMENT, 1987

Loan Source	% of Transac.	No. of Transac.	Average Size (P)	Fund Volume (PM)	% of Total Volume
<u>Formal</u>					
Gov't Lending	3.0	8,242	1,700	14.0	0.8
Pawnshop	0.8	2,060	2,500	5.1	0.3
Credit Firm	0.8	2,060	4,000	8.2	0.5
	===	=====	=====	=====	===
Sub-Total	4.6			27.3	1.6
<u>Informal</u>					
Family, Loans interest-free	47.3	129,806	6,775	879.4	50.2
Family, Loans interest-bearing	16.5	45,330	4,310	195.4	11.2
Professional Moneylenders	9.8	26,785	6,588	176.4	10.1
Employers, Credit Advances	15.8	43,269	9,107	394.0	22.5
Agents, Credit Advances	6.0	16,483	4,708	77.6	4.4
	=====	=====	=====	=====	=====
Sub-Total	95.4			1.72 B	98.4
<hr/>					
TOTAL	100.0			1.75 B	100.0

3. Loan Purpose

Most loans (82%), whether from formal or informal sources, are borrowed for placement purposes (Table 5.3). There are other purposes as well. Ten percent (10%) of workers borrow for travel needs, while eight percent of workers use loans also for living expenses during their overseas job search. Nonplacement loans are sourced from informal sources.

Table 5.2
THE COMMERCIAL FEATURE OF CREDIT TRANSACTIONS
OF NEWLY HIRED OVERSEAS CONTRACT WORKERS, 1987

Credit Source	No. of Transac.	%	Average Loan Size (₱)	Est. 1987 Vol. (₱)	% of Total Vol.
<u>Noncommercial</u>					
Family and Friends, w/out interest	63	47.4	6,787	879.4	50.2
<u>Commercial</u>					
Family and friends, with interest	22	16.6	4,310	195.4	11.2
Professional Moneylenders	13	9.8	6,588	176.4	10.1
Employer/Agent Advances	29	21.8	7,893	471.6	26.9
Gov't Financial Institutions	4	3.0	1,700	14.0	0.8
Pawnshop	1	0.7	2,500	5.1	0.3
Private Credit Firm	1	0.7	4,000	8.2	0.5
	==	====	=====	=====	=====
Sub-Total	70	52.6	6,038	870.7	49.8

4. Access to Lenders

Lenders and borrowers are part of a large network of friends, relatives, employers, and agents. Most lenders are linked to the borrowers through either friendship and family ties (26%), work relationship (41%), or through known third person intermediation (20%) (Table 5.4). For government lenders, borrowers are pre-screened through their membership in the social security system. Only nine percent deal directly on a purely commercial basis with the lenders.

Table 5.3
PURPOSE AND USE OF INFORMAL AND FORMAL LOANS
OF NEWLY HIRED OVERSEAS CONTRACT WORKERS, 1987

Source	Total	Place- ment	Placement/ Living	Travel
<u>Informal</u>				
Family and friends, with interest	22	22		
Professional Moneylenders	13	13		
Employer/Agent Advances	29	17	5	7
	==	==	=	=
Sub-Total	64	52	5	7
	100%	81.3%	7.8%	10.9%
<u>Formal</u>				
Gov't Financial Inst.	4	3	1	
Pawnshop	1	1		
Private Credit Firm	1	1		
	=	=	=	
Sub-Total	6	5	1	
	100%	83.3%	16.7%	
Total	70	57	6	7
	100%	81.4%	8.6%	10%

B. Interest Rates

Interest rates for overseas employment credit in 1987 averaged at 98 percent per annum (Table 5.5). In brief, workers double the loan's principal at the end of a payback period of one year.

Interest is paid both in cash and in kind. More worrisome, however, is the relatively high proportion of loans (33%) with unknown interest rates. Uninformed borrowing mostly occurs in employer and agent credit advances. In these cases, workers were generally unaware of the terms and conditions of lending. The few who did know pay an interest rate of 45 percent. While this is seemingly low compared to the ones charged by other informal lenders, the interest rate is actually very high since

Table 5.4
ACCESS TO LENDERS OF NEWLY HIRED OVERSEAS
CONTRACT WORKERS, 1987

Credit Source	Total	Gen. Known	Pers. Known	Referred by F/F	Own Emp/Agnt	Member
<u>Informal</u>						
F/F, with Interest	22	1	16	5		
Prof. Moneylenders	13	4	2	7		
Emp/Agent Advances	29				29	
	=	=	=	=	=	
Sub-Total	64	5	18	12	29	
	100%	7.8%	28.1%	18.8%	45.3%	
<u>Formal</u>						
Gov't Fin.Inst.	4					4
Pawnshop	1	1				
Private Credit Firm	1			1		
	=	=		=		=
Sub-Total	6	1		1		4
	100%	16.7%		16.7%		66.7%
Total	70	6	18	14	29	4
	100%	8.6%	25.7%	20%	41.4%	5.7%

the lenders face little or no risk of default. Employers, following a prevailing practice in many foreign jobsites, hold workers' passports and control workers' wages and payrolls. Employers facilitate both the issuance and denial of work permits and immigration status of the hired workers. The interest rate that foreign employers impose therefore is less of a reflection of potential risk but of the inequitable power they hold over overseas workers.

C. Maturity Periods

Maturity periods fall within three types. The first type which comprises 47 percent of all loans has pre-determined maturity periods (Table 5.6). On the average, these loans run for six months. The second group, which includes 34 percent of

Table 5.5
INTEREST RATES ON LOANS OF NEWLY HIRED
OVERSEAS CONTRACT WORKERS, 1987

Credit Source	Total	W/Cash Interest	Rate (p.a.)	W/Int. in Kind	Interest Not Known
<u>Informal</u>					
F/F, with Interest	22	17	106%	5	
Prof. Moneylenders	13	12	132%	1	
Emp/Agent Advances	29	6	45%		23
	==	==	====	=	==
Sub-Total	64	35	104%	6	23
	100%	55%		9%	36%
<u>Formal</u>					
Gov't Fin.Inst.	4	4	7%		
Pawnshop	1	1	72%		
Private Credit Firm	1	1	120%		
	=	=	====		
Sub-Total	6	6			
	100%	100%	37%		
<hr/>					
Total	70	41		6	23
	100%	59%	98%	9%	33%

loans, have indefinite time periods for repayment. Under this arrangement, workers pay continuing monthly interest rates while the principal is paid when able, usually at the end of the contract period. The third kind, consisting largely of employer and agent advances, involves salary deduction schemes. In a number of these arrangements, while the workers are aware of their debt and the method of repayment through salary deductions, they are not explicitly told the conditions of repayment (i.e., the amounts to be deducted, length of time that deductions will be taken, etc.). This lack of disclosure and information leaves the worker-borrowers open and vulnerable to abuse. For example, there have been some cases where workers are unable to exit from the foreign jobsites because of alleged unpaid debt. This change/charge is difficult to dismiss since workers hardly have proof of repayment nor records of salary deductions.

Table 5.6
MATURITY PERIODS ON LOANS OF NEWLY HIRED
OVERSEAS CONTRACT WORKERS, 1987

Credit Source	Total (n)	Period Known Type 1 (n)	Ave. Period (mos.)	Period Indefn. Type 2 (n)	Period Not Known Type 3 (n)
<u>Informal</u>					
F/E, with Interest	22	8	6	14	
Prof. Moneylenders	13	6	10	7	
Emp/Agent Advances	29	14	4	1	14
	==	==	==	==	==
Sub-Total	64	28	6	22	14
	100%	44%	mos.	34%	22%
<u>Formal</u>					
Gov't Fin.Inst.	4	4	15		
Pawnshop	1				
Private Credit Firm	1	1	4		
	=	=	==		
Sub-Total	6	5	13	1	
	100%	83%	mos.	17%	
Total	70	33	7	23	14
	100%	47%	mos.	33%	20%

Number of Payments

The schedule of payments also falls into three types. The first, covering 54 percent of all loans, provides for an average of four installments (Table 5.7). The second group, comprising 25 percent of all loans, has a flexible, open-ended repayment scheme. In this system, the interest is regularly and continuously paid even if the principal remains unpaid. For the third group which makes up 21 percent of all loans, workers are unaware of the terms and conditions of repayment.

Table 5.7
NUMBER OF PAYMENTS ON LOANS OF NEWLY HIRED OVERSEAS
CONTRACT WORKERS, 1987

Credit Source	No.	Paymnts Known Type 1	Ave. No.	Indefn. Paymnts Type 2	Not Known Type 3

NUMBER OF PAYMENTS, NEW HIRES 1987					
<u>Informal</u>					
F/F, with Interest	22	13	1.5	9	
Prof. Moneylenders	13	5	1.4	8	
Emp/Agent Advances	29	14	2.2		15
	==	==	==	=	==
Sub-Total	64	32	2.2	17	15
	100%	50%	1.8	27%	23%
			payments		
<u>Formal</u>					
Gov't Fin.Inst.	4	4	12.5		
Pawnshop	1	1	1		
Private Credit Firm	1	1	4		
	=	=	====		
Sub-Total	6	6	9		
	100%	100%	payments		

Total	70	38	3.3	17	15
	100%	54%	payments	24%	21%

D. Methods of Collection

Overseas employment loans are given and paid for in cash except for a small proportion (7%) whose borrowers pay in both cash and kind (Table 5.8). Lenders who are family members and friends often accept partial payments in kind, usually rice produce.

Table 5.8
METHODS AND MANNER OF COLLECTION ON LOANS
OF NEWLY HIRED OVERSEAS WORKERS, 1987

Credit Source	Total	Cash	Cash/ Kind	Family Brings	Worker Brings	Sal. Deduc.	Others
<u>Informal</u>							
F/F, with Interest	22	18	4	16	4		2
Prof. Moneylenders	13	12	1	13			
Emp/Agent Advances	29	29				29	
	==	==	=	==	=	==	=
Sub-Total	64	59	5	29	4	29	2
	100%	92%	8%	45%	6%	45%	3%
<u>Formal</u>							
Gov't Fin.Inst.	4	4		2	1	1	
Pawnshop	1	1		1			
Private Credit Firm	1	1		1			
	=	=		=	=	=	
Sub-Total	6	6		4	1	1	
	100%	100%		67%	17%	17%	
Total	70	65	5	33	5	30	2
	100%	93%	7%	47%	7%	43%	3%

In nearly half of the loans (47%), the family members repay the lenders directly. Loan payments are automatically deducted from either local or overseas salaries in another 47 percent of loans. Only for seven percent of the loans do worker-borrowers directly pay the lenders back.

E. Personal Guaranty, Documentary, and Other Collateral Requirements

Many small borrowers are reluctant to use the facilities of formal banking institutions because of the burdensome collateral and documentary requirements. This is true as well in the overseas employment sector.

In overseas employment, formal lenders imposed substantially more requirements than the informal lenders. All the formal lenders required documentary evidence, usually promissory notes and conditional deeds of sale, a third (33%) required collaterals, and a fifth (17%) asked for a personal guarantor who assumes debt responsibility in the case of default (Table 5.9).

Table 5.9
PERSONAL GUARANTY, DOCUMENTARY, AND COLLATERAL REQUIREMENTS
ON LOANS OF NEWLY HIRED OVERSEAS CONTRACT WORKERS, 1987

Credit Source	No.	Number with Such Requirements		
		Personal Guaranty	Documents	Collaterals
<hr/>				
<u>Informal</u>				
F/F, with Interest	22	0	4	9
Prof. Moneylenders	13	3	5	7
Emp/Agent Advances	29	0	0	0
	=	=	=	=
Sub-Total	64	3	9	16
	100%	5%	14%	25%
<hr/>				
<u>Formal</u>				
Gov't Fin.Inst.	4	0	4	0
Pawnshop	1		1	1
Private Credit Firm	1	1	1	1
	=	=	=	=
Sub-Total	6	1	6	2
	100%	17%	100%	33%
<hr/>				
Total	70	4	15	18
	100%	6%	21%	26%

Informal lenders were much more lax. A fourth (25%) required collaterals, 14 percent required loan agreements and promissory notes, and only five percent insisted on personal guarantors or loan co-makers. Among the informal credit sources, the professional moneylenders imposed the most requirements, and the employers and agents the least. In effect though, the

employers and agents use their workers' passports and work permits as a form of collateral since without these documents, workers are unable to transfer employers or jobsites.

F. Nature of Collaterals

Informal lenders in this credit market accepted a wide range of collaterals, from the land titles to home appliances and jewelry. While a third (38%) of collateralized loans involved land titles, stereo components and home furniture (25%) and jewelry (19%) have been accepted as well (Table 5.10).

Table 5.10
NATURE OF COLLATERALS ON LOANS OF NEWLY HIRED
OVERSEAS CONTRACT WORKERS, 1987

Credit Source	No. w/ Collaterals	Land	Jeep	Jewelry	Stereo/ Furniture	Others
<u>Informal</u>						
F/F, with Interest	9	1		3	3	2
Prof. Moneylenders	7	5	1		1	
Emp./Agent Advances	=	=	=	=	=	=
Sub-Total	16	6	1	3	4	2
	100%	38%	6%	19%	25%	13%
<u>Formal</u>						
Gov't Fin. Inst.						
Pawnshop	1				1	
Priv. Credit Firm	1				1	
	=				=	
Sub-Total	2				2	
	100%				100%	
Total	18	6	1	3	6	2
	100%	33%	6%	17%	33%	11%

G. Number of Days for Loan Release

Informal lenders supplied the needed funds quickly. These lenders, on the average, released the needed loans within two days, while the formal lenders used 28 days (Table 5.11).

Table 5.11
NUMBER OF DAYS FOR LOAN RELEASE, NEWLY HIRED
OVERSEAS CONTRACT WORKERS, 1987

Credit Source	Total	Average Number of Days
<u>Informal</u>		
F/F, with Interest	22	3
Prof. Moneylenders	13	2
Emp/Agent Advances	29	1
	==	=
Sub-Total	64	2 days
<u>Formal</u>		
Gov't Fin.Inst.	4	38
Pawnshop	1	1
Private Credit Firm	1	14
	=	=
Sub-Total	6	28 days
Total	70	4 days

COMPARISON OF CREDIT TERMS AND CONDITIONS BETWEEN EARLY HIRES
(1980-1985) AND NEW HIRES (1987)

Vacationing workers first hired during the 1980-1985 period responded well to questions on terms and conditions of the loans acquired during their initial overseas jobs.

The differences between the terms and conditions of workers hired during the early period 1980-1985 and the new hires of 1987 demonstrate the dynamism of the informal credit market as it adapted to changes in both the internal financial environment and external labor market. The following describe the differences and similarities of credit terms and conditions in the two periods:

1. The shares of formal and informal institutions in the overseas employment credit market have basically remained the same, overwhelmingly informal (95%) with a small formal contribution (4%). However, while the type of lenders within the informal and formal sectors are unaltered, their relative importance has been changed. Within the informal sector, family lending without interest has declined while employer and agent advances have about doubled. Airline financing for overseas contract workers is no longer available. On the other hand, the formal lenders now include not only government social security institutions and rural banks, but also pawnshops and private credit agencies (Table 5.12).

Table 5.12
COMPARISON OF THE INFORMAL AND FORMAL CREDIT TRANSACTIONS
OF EARLY HIRED (VACATIONING), 1980-1985 AND NEWLY HIRED
OVERSEAS CONTRACT WORKERS, 1987
(In %)

Credit Source	Early Hired 1980-1985	Newly Hired 1987
<hr/>		
<u>Informal</u>		
Family and Friends, w/out interest	60	47
Family and friends, with interest	15	17
Professional Moneylenders	10	10
Employer/Agent Advances	9	22
Airline Advances	3	0
	==	==
Sub-Total	97	96
<u>Formal</u>		
Gov't Financial Institutions/ Rural Banks	4	3
Pawnshops and Credit Firms	-	1
	=	=
Sub-Total	4	4
	==	==
Total	100	100

2. Loans have become more commercialized. Noncommercial lending was more dominant among early hires at 60 percent of all loans. This has since declined to 47 percent of loans among new hires (Table 5.13).

Table 5.13
COMPARISON OF THE COMMERCIAL FEATURE OF CREDIT TRANSACTIONS
OF EARLY HIRED (VACATIONING), 1980-1985 AND NEWLY HIRED
OVERSEAS CONTRACT WORKERS, 1987
(In %)

Credit Source	Early Hired	Newly Hired
<u>Noncommercial</u>		
Family and Friends, w/out Interest	60	47
<u>Commercial</u>		
Family and Friends, with Interest	15	17
Professional Moneylenders	10	10
Employer/Agent Advances	9	22
Airlines	3	
Gov't Financial Institutions	4	4
Pawnshops/Credit Firms	-	1
Sub-Total	40	53
Total	100	100

3. Overseas employment loans, whether for early hires or the new hires, pay for placement and recruitment expenses. From the data set of the early hires comes the interesting information that some workers learned of their debt only at worksite. Six percent (6%) of the loans were discovered this way (Table 5.14).

These workers were deceived about their placement expenses. In practice, some agents use credit arrangements to go around the

Table 5.14
PURPOSE AND USE OF INFORMAL AND FORMAL LOANS
OF EARLY HIRED (VACATIONING) OVERSEAS CONTRACT WORKERS, 1980-1985

Credit Source	Total	Place- ment	Living	Travel	Learned at Worksite
<hr/>					
<u>Informal</u>					
Family and Friends, with Interest	26	25	1	-	-
Professional Moneylenders	17	17	-	-	-
Employer/Agent Advances	15	11	-	-	4
Airlines	5	-	-	5	-
Sub-Total	63	53	1	5	4
	100%	84%	2%	8%	6%
<hr/>					
<u>Formal</u>					
Gov't Financial Inst.	6	3	3		
Sub-Total	6	3	3		
	100%	50%	50%		
<hr/>					
Total	69	56	4	5	4
	100%	81%	6%	7%	6%

government maximum fee policy. While agents charge the worker the maximum fee of P5,000, they arrange with the employers to advance all placement costs. Part of the arrangement is an understanding that the worker will repay these expenses via salary deduction. Unfortunately, however, the workers are not informed about these credit arrangements. But because they have, in a sense, burned their bridges, these deductions are merely accepted/tolerated at worksite.

4. There is little difference in access to lenders between early hires and new hires. Obviously though, with the larger share of employer/agent lenders among new hires, there are lower proportions of lenders who are 'personally known' or 'referred by family and friends' among the new hires compared to the early hires (Table 5.15).

Table 5.15
ACCESS TO LENDERS OF EARLY HIRED (VACATIONING)
OVERSEAS CONTRACT WORKERS, 1980-1985

Credit Source	Total	Gen. Known	Refer'd by F/F	Own Emp/Agnt	Refer'd by Agnt	Mem ber	Others
<hr/>							
<u>Informal</u>							
F/F, w/Interest	26	2	21	-	-	-	3
Moneylenders	17	2	13	-	-	-	2
Emp/Agent Advances	15	-	1	8	6	-	-
Airlines	5	-	-	-	5	-	-
Sub-Total	63	4	35	8	11	-	5
	100%	6%	56%	13%	18%		8%
<hr/>							
<u>Formal</u>							
Gov't Fin.Inst./							
Rural Banks	6	2	2	-	-	2	-
	100%	33%	33%			33%	
<hr/>							
Total	69	6	37	8	11	2	5
	100%	9%	54%	12%	16%	3%	7%

5. Overall, interest rates for overseas employment loans have increased from 73 percent per annum for early hires to 98 percent per annum for the new hires. Interest rates of the informal lenders as a group rose from 78 percent p.a. to 104 percent p.a. (Table 5.16). The acceleration of informal lenders' interest rates is largely explained by the commercialization of family loans where interest rates increased from 47 percent to 106 percent. On the other hand, known interest rates of employers and agents declined from 68 percent to 45 percent. The large entry of more credit-minded employers and agents can partially explain the decline, but this decline must be taken in the context of the shifting burden of overseas placement costs from employers to workers. Whereas in earlier years more employers bore full recruitment costs, in the last five years or so, employers have been passing on the burden to the workers. Employer and agent advances payable by salary deduction provide a convenient loophole around the maximum placement fee policy of government.

Table 5.16
COMPARISON OF ANNUAL INTEREST RATES ON LOANS
OF EARLY HIRED (VACATIONING), 1980-1985 AND NEWLY HIRED
OVERSEAS CONTRACT WORKERS, 1987
(In %)

Sources	Early Hired	Newly Hired
<u>Informal</u>		
F/F, with Interest	47	106
Prof. Moneylenders	130	132
Emp/Agent Advances	68	45
Airlines	10	-
	==	==
Sub-Total	78	104
<u>Formal</u>		
Gov't Fin. Inst./ Rural Banks	21	7
Pawnshop/Private Credit	-	96
	==	==
Sub-Total	21	37
Total	73	98
Percentage with cash interest	75	59
Percentage with unknown interest	25	33

Among the formal lenders, interest rates also rose from 21 percent to 37 percent.

A disturbing aspect of changing interest rates is the increase in proportion of loans with unknown interest rates from 25 percent to 33 percent. As explained earlier, the rise in these percentages is due to the expansion of employer and agent credit.

6. On the whole, overseas employment loans are repaid quickly, with an average default rate of 7-11 percent. Data on maturity periods of early hire respondents reveal their repayment experience. On the average, overseas employment loans were repaid in 15 months. As of 1987, seven percent (7%) of the loans remained in arrears, while in four percent of loans, borrowers were unsure of repayment status (Table 5.17).

Informal loans were repaid within 12 months. Ninety percent (90%) of these loans were completely paid, five percent were still in arrears, with another five percent had unsure repayment status.

Formal loans were repaid on the average in 53 months. On the whole, the repayment experience was poor with only 67 percent fully paid, and 33 percent in arrears. The unpaid loans were due to failed rural banks.

Table 5.17
MATURITY PERIODS ON LOANS OF EARLY HIRED
(VACATIONING) OVERSEAS CONTRACT WORKERS, 1980-1985

Loan Source	Total (n)	Payment Period (n)	Ave. Length (mos.)	Not Yet Paid (n)	Period DK/RA (n)
<u>Informal</u>					
F/F, w/ Interest	26	24	15	2	-
Moneylenders	17	16	11	1	-
Emp/Agent Advances	15	12	7	-	3
Airlines	5	5	9	-	-
Sub-Total	63	57	12	3	3
	100%	90%		5%	5%
<u>Formal</u>					
Gov't Fin. Inst./					
Rural Banks	6	4	53	2	-
	100%	67%		33%	
Total	69	61	15 mos.	5	3
	100%	88%		7%	4%

7. The number of payments, methods, and manner of collection of loans are hardly different between the early hires and the new hires, except for increases in both the number and percentage of loans with indefinite repayment periods and loans adopting on salary deduction schemes. These increases are due to the expansion of credit advances of employers and agents (Tables 5.18 and 5.19).

Table 5.18
NUMBER OF PAYMENTS ON LOANS OF EARLY HIRED
(VACATIONING) OVERSEAS CONTRACT WORKERS, 1980-1985

Loan Source	No.	Payments Known	Ave. No.	Indefn. Payments	Not Known
<u>Informal</u>					
F/F, with Interest	26	24	3.4	2	-
Prof. Moneylenders	17	16	3	1	-
Emp/Agent Advances	15	10	1.2	-	5
Airlines	5	5	7.5	-	-
	==	==	==	=	=
Sub-Total	63	55	3.3	3	5
	100%	87%		5%	8%
<u>Formal</u>					
Gov't Fin.Inst./					
Rural Banks	6	6	9.5	-	-
	100%	100%	payments		
Total	69	61	3.9	3	5
	100%	88%	payments	4%	7%

8. Loans for overseas employment now increasingly require collaterals. There are significant changes in personal guaranty and collateral requirements of the credit market for overseas employment. Among informal loans, the proportion of loans requiring collaterals has risen from 14 percent to 25 percent, showing a shift to pawnshop-type activities. However, the proportion of collateralized loans for formal loans has declined. This is due, rather, to the changed composition of the lenders within the formal sector (Table 5.20).

Table 5.19
METHODS AND MANNER OF COLLECTION ON LOANS OF EARLY HIRED
(VACATIONING) OVERSEAS CONTRACT WORKERS, 1980-1985

Loan Source	Total	Cash	Cash/ Kind	Family Brings	Worker Brings	Sal. Deduc.	Others
<u>Informal</u>							
F/F, with Interest	26	23	3	17	4	5	-
Prof. Moneylenders	17	17	-	12	3	-	2
Emp/Agent Advances	15	15	-	3	4	7	1
Airlines	5	5	-	1	2	2	-
	=	=	=	=	=	=	=
Sub-Total	63	60	3	33	13	14	3
	100%	95%	5%	52%	21%	22%	5%
<u>Formal</u>							
Gov't Fin.Inst./ Rural Banks	6	6	-	4	1	1	-
	100%	100%		66%	17%	17%	
Total	69	66	3	37	14	15	3
	100%	96%	4%	57%	20%	22%	4%

With the increase in collateral requirements, there is some lessening of requirements for documentary evidence on personal guaranties. Loans needing documentary evidence have declined from 24 percent to 14 percent while those looking for personal guarantors or co-makers have also lessened from 24 percent to five percent.

The range of acceptable collateral requirements has broadened, away from the narrow preference for land titles to nontraditional collaterals like jewelry and stereo components. The use of land titles has declined from 77 percent to 38 percent, while the use of newer types of collaterals has increased from about 8-10 percent to 25 percent. Aside from jewelry and appliances, other new financial instruments include remittance assignments or the identification of the lender as overseas workers' remittance beneficiary, the employment contract, and even a relative's passport. There was a special

Table 5.20
PERSONAL GUARANTY, DOCUMENTARY, AND COLLATERAL REQUIREMENTS
ON LOANS OF EARLY HIRED (VACATIONING) OVERSEAS CONTRACT WORKERS,
1987

Loan Source	No.	<u>Number with Such Requirements</u>		
		Personal Guaranty	Documents	Collaterals
<hr/>				
<u>Informal</u>				
F/F, with Interest	26	5	5	5
Prof. Moneylenders	17	7	6	4
Emp/Agent Advances	15	0	3	0
Airlines	5	3	2	-
	==	=	=	=
Sub-Total	63	15	15	9
	100%	24%	24%	14%
 <u>Formal</u>				
Gov't Fin.Inst./				
Rural Banks	6	4	2	4
	100%	67%	33%	67%
<hr/>				
Total	69	19	17	13
	100%	28%	25%	19%

case where the aunt who is also a contract worker in Hongkong got a loan from a moneylender based there. This aunt used her passport as collateral.

9. In general, the number of days it takes to process and release loans in this credit market has improved by half from eight to four days. The improvement in processing and release time of loans is due mainly to efficiencies of the informal lenders whose average release period has shortened from eight days to two days. On the other hand, the efficiency of formal lenders deteriorated with average processing and release time increasing from 24 days to 28 days (Table 5.22).

Table 5.21
NATURE OF COLLATERALS ON LOANS OF EARLIER HIRED
(VACATIONING) OVERSEAS CONTRACT WORKERS, 1980-1985

Loan Source	No. w/ Collaterals	Land	Jeep	Jewelry	Stereo/ Furniture	Others
<u>Informal</u>						
F/F, with Interest	5	2	-	-	1	2
Prof. Moneylenders	4	4	-	-	-	-
Emp./Agent Advances	0	-	-	-	-	-
Airlines	0	-	-	-	-	-
Sub-Total	9	6			1	2
<u>Formal</u>						
Gov't Fin. Inst./ Rural Banks	4	4	-	-	-	-
Total	13	10			1	2
	100%	77%			8%	15%

Table 5.22
NUMBER OF DAYS FOR LOAN RELEASE, EARLY HIRED (VACATIONING),
1980-1985 AND NEWLY HIRED OVERSEAS CONTRACT WORKERS, 1987
(In Number of Days)

Loan Source	Average Number of Days	
	Early Hires	New Hires
<u>Informal</u>		
F/F, with Interest	9	3
Prof. Moneylenders	7	2
Emp/Agent Advances	1	1
Airlines	12	
Sub-Total Average	8	2
<u>Formal</u>		
Gov't Fin.Inst./ Rural Banks	24	28
Total	8	4

VI. CASE STUDIES OF PROFESSIONAL MONEYLENDERS IN OVERSEAS EMPLOYMENT

Informal lenders in overseas employment, other than relatives and friends of the worker-applicants, are of two types. The professional community lender lends to his/her friends, neighbors, and other community referrals for various purposes, including overseas employment. The employment-linked lender, usually the foreign employer or recruitment agent, provides cash advances to defray placement expenses of their hired workers.

Traditionally, lenders in overseas employment have been the professional community type, though our credit survey data show that the share of employment-linked credit transactions has expanded in recent years.

A. Methodology: Personal Interviews

Twelve (12) professional community type lenders were personally interviewed. Lenders were identified by a system of referrals of friends and previous clients. Lenders were asked for details of their experiences in informal credit lending for overseas employment and information on terms and conditions of loans.

Doing interviews with informal lenders is difficult. Almost all lenders are apprehensive about providing detailed data about their activities. Because of the negative media portrait of informal lenders as usurers and tax evaders, they are distrustful of interviewers' motives. With a deteriorating peace and order situation in many communities, the security of income and collaterals from robbers and rebels also causes anxiety. To reassure the lenders, interviewers went along with a friend, relative, or former client of the lender. The presence of the third party intermediaries helped convince the lenders of the confidentiality of the interview and the integrity of the research team. Interviewers also devoted some time in explaining the objectives of the research.

Once the initial barriers are overcome, other problems arose. Lenders were hesitant in revealing the specific figures of capital, interest rates, or collaterals they required from borrowers. They had difficulty recalling dates, sizes, terms, and conditions of past loans. The lenders hardly kept complete records of their transactions, often being dependent on memory or small index cards with cryptic notes.

B. Twelve Informal Lenders of the Professional Community Type

Personal Characteristics

Nine (9) of the twelve lenders of the professional community type reside in Metro Manila, while three live in Bulacan. Ten are between the ages 31-48, the other two are in their 60s. Nine lenders are female, three are male. Ten are married, one is single, the other a widow. Ten are heads of their families, two are dependents. They are all Filipinos.

C. Entry into Moneylending for Overseas Employment

Ten of the 12 lenders were involved in informal credit lending prior to lending for overseas employment. While three had engaged in professional community lending, seven specialized in different market segments: sari-sari store credit (2); lending to market vendors (3); office credit for goods (1); agricultural lending (1); credit card guarantee (1). Two lenders immediately started in overseas employment lending. One is an ex-overseas worker who lent placement funds to a brother-in-law. Another provided subsistence funds to a family friend who was experiencing remittance delays.

Though most of the respondents started lending between 1979-1982, their overseas employment operations began only in the period 1983 to 1985. Placement costs rose sharply during this period and the demand for credit for overseas employment also escalated. Most of the lenders initially went to overseas employment lending as a response to the needs of family relatives, neighbors, and previous clients for financial assistance.

Nearly half of the loans were for placement fees of hired workers. Another quarter were for recruitment and application expenses prior to hiring. Loans for subsistence needs of workers' families and for special pre-departure needs (such as uniforms) made up the remaining quarter of the loans.

D. Sources of Initial and Supplementary Capitalization

Lenders operate with little assistance from formal credit markets consisting of international and government financial institutions or private banks. Initial and supplementary funds for informal lending come from mostly informal sources.

Initial capitalization of the informal lenders are relatively small, ranging from ₱2,000 to ₱50,000, with an average of ₱19,750. Early starters (1976-1979) had smaller starting capital compared to those starting 1980 onwards. Except for one lender who borrowed a portion of his initial capitalization from the Social Security System, the lenders used their own savings and retirement benefits for their initial capitalization.

Table 6.1
REASONS FOR ENTRY TO INFORMAL LENDING,
12 MONEYLENDERS, 1987

	Start in ICM	Start in O.E.* Lending	Reason for O.E.* Lending	Loan purpose
(1)	1985	1986	an ex-overseas worker, an in-law asked for assistance	Placement Fee
(2)	1982	1982	lent to family relative	Subsistence
(3)	1982	1984	Had sari-sari store credit, then community residents requested for O.E. loans	Application
(4)	1984	1985	Sold in office on credit, then officemate requested for husband	Placement Fee
(5)	1983	1984	co-workers asked for a loan for O.E.	Placement Fee
(6)	1981	1984	Had farmer lending service, then a relative's son needed a loan for O.E.	Placement Fee
(7)	1980	1984	Applicants needed loans	Application
(8)	1984	1987	Lending to vendors, then son of vendor requested for an overseas loan	Application
(9)	1984	1984	Sari-sari store credit, neighbor asked for help	Subsistence
(10)	1977	1980	Previously lending to vendors, then vendors' kin asked for loans	Placement Fee
(11)	1976	1983	Godchild asked for a loan	Application
(12)	1979	1983	Approached by OCWs	Pre- Departure Expenses (e.g.) uniforms

* O.E. = Overseas Employment

Table 6.2
SOURCES OF INITIAL AND SUPPLEMENTARY CAPITALIZATION,
12 MONEYLENDERS, 1987

Initial Capital	Source	Additional Capital	Source	Interest rate (p.a.)	Maturity Period
(1) 45,000	Savings	R.A. *	Relative	15%	2 yrs.
(2) 5,000	Savings	R.A. *	Retirement pay		
(3) 30,000	Savings Store income	R.A. *	Bank	18%	2 yrs.
(4) 18,000	Savings/ SSS loan				
(5) 15,000	Savings/ Family business	10,000			
(6) 20,000	Savings				
(7) 50,000	Savings	R.A. *	Savings		
(8) 10,000	Savings	R.A. *	Savings/ Income from lending		
(9) 20,000	Husband's retirement	R.A. *	Son's remittances		
(10) 20,000	Savings	R.A. *	Savings		
(11) 2,000	Savings	R.A. *	Interest income		
(12) 2,000	Savings	R.A. *	Income from credit card operations; husband's bonuses		

Average:

All: ₱ 19, 750 Group A: ₱ 22,166 Group B: ₱ 17,333

* R.A.=Refused to Answer.

From the start of their lending activities, nine of the 12 lenders added supplementary capital to their enterprises. Only one lender revealed that this additional capital amounted to ₦10,000. Others were either unable or unwilling to say the extent of augmentation. However, they identified the sources of additional funds. Six (6) enlarged their operating capital from personal savings, incomes from lending, and a son's overseas income remittances. One lender borrowed from a relative who charged 15 percent per annum on a two-year loan, and another from a friend who invested ₦10,000 in the lending enterprise. A third lender borrowed from a bank, paying 18 percent per annum interest for a loan of two years. Overall, only two of the 12 lenders obtained funds from formal sources for either initial or supplementary capitalization requirements.

E. Terms and Conditions of Lending for Overseas Employment

Flexibility is the key to informal lending. This is true as well in informal lending for overseas employment. Terms and conditions of such lending are not standardized. According to one of the lenders, terms and conditions are determined by the amount borrowed, the credibility of the borrower and his guarantors, venue of worker's contract, and the worker's ability to pay as determined by his overseas salary.

At the time of interview (March 1987), amounts of loans extended for overseas employment ranged from a small ₦1,500 to a high ₦15,000. On the average, loans are between ₦6,000 to ₦8,000. Interest rates range from five percent - 20 percent monthly, with an average of 10 percent per month. Maturity periods range from six months to 12 months, and the payments number between four to 24 payments a year. A grace period of three months is often granted. Most of the lenders (9 out of 12) require collaterals in the form of jewelry, appliances, vehicle registration, and land titles. Eight (8) of 12 lenders insist on a promissory note in the form of an affidavit stating the lender's and borrower's name, the rate of interest, and the maturity date. Other than collaterals and promissory notes, eight of 12 lenders also look for a guarantor, usually a friend, relative, or neighbor of the lender. The need for a guarantor may be waived if the borrower is personally known to the lender. The lenders rarely experience defaults. Some loans are rescheduled, and the overriding consideration seems to be the continuity of interest payments. Otherwise, the collateral is forfeited and liquidated.

We can also compare the terms and conditions of two sub-groups of lenders. Group A lenders have at least 75 percent of their loans in overseas employment, and Group B lenders whose overseas employment loans are a relatively smaller (13%-37%) proportion of their total lending activities. Group A lenders presumably have better information of the overseas employment credit market than Group B lenders. There are noticeable

Table 6.3
TERMS AND CONDITIONS OF OVERSEAS EMPLOYMENT LOANS,
12 MONEYLENDERS, 1987

	Loans in O.E. (%)	Ave. Loan Size (000)	Interest Rate (%/mo.)	Maturity Period (mos.)	No. of Pay- ments	Collateral in Assets Y/N
Group A						
(1)	87.5	2.5 - 5	5 - 8	6	6	Yes
(2)	100.0	15	5	5	5	No
(3)	85.5	5 - 7	5 - 10	6	6	No
(4)	77.3	5	5 - 7	6	6	No
(5)	79.4	4 - 6	5 - 10	4	4	Yes
(6)	80.5	2.5 - 5	10	6	6	Yes
Group B						
(7)	13.3	5	20	12	24	Yes
(8)	25.0	1.5 - 3	10 - 15	12	12	Yes
(9)	37.5	6 - 10	5	6	6	Yes
(10)	35.0	10 - 15	15	12	12	Yes
(11)	14.0	7	20	12	24	Yes
(12)	20.0	10 - 15	15	12	12	Yes
Average:						
	54.6%	6,125 - 8,100	10%-11% per mo.	8.25 months	10.25 payments	9 Yes 3 No

differences in the lending practices of these two groups of lenders. Group A lenders charge lower interest rates, require shorter maturity periods and therefore fewer monthly payments as well.

For both, loans are normally processed within seven days. Borrowers, their family members, or guarantors personally bring the payments, usually in cash, to the lenders. Collectors are used by only two lenders.

F. Changes in Overseas Employment Lending

Major changes in overseas employment lending occurred between 1983 to 1985. Philippine economic recession coincided with the decline in demand for expatriate labor in the Middle East job market. It was also the time of a steep rise in overseas placement fees. Terms and conditions for informal loans altered radically. The most noticeable change common for all the lenders who were interviewed is the doubling of loan size. Two lenders adopted a two-tiered interest rate structure, with lower rates for small amounts and higher rates for larger loans. Lenders began to require collaterals in response to the rise in demand for larger-sized loans. New forms of collateral became acceptable. There was less reliance on land property titles (it was a time marked by declining land values) and a growing preference for jewelry, appliances, and vehicles. Maturity periods lengthened, while the number of payments was lessened.

G. Special Problems of Overseas Employment Loans

Though defaults are rare, there are special problems in lending for overseas employment. Nonpayment or delay in repayment are due mainly to problems of illegal recruitment and the delivery of foreign remittances. Defaults occur when workers are illegally recruited or promised non-existent or substandard jobs or forced to an early return because of premature contract termination, illness, or family emergencies. Payments are delayed when workers' foreign incomes do not arrive on time, usually due to inefficient and inadequate banking channels, or when funds are lost because of mail pilferage or the negligence of overseas co-workers hand-carrying remittances (a.k.a. padala).

Table 6.4
CHANGES IN OVERSEAS EMPLOYMENT LENDING,
12 MONEYLENDERS, 1987

	Kind of Change	Manner of Change	Year when Change Occurred
(1)	Loan size	Increased from ₱2,500 to ₱5,000	1985
	Collaterals	Required assets for collateral	1986
(2)	Loan size	Increased from ₱5,000 to ₱15,000	1985
(3)	Loan size	Increased from ₱1,000 to ₱2,500	1984
	Loan size	Increased from ₱2,500 to ₱5,000	1985
	Interest rate	Adopted 2-tiered interest rate: retained the 5% just for loans below ₱5,000 and raised rate to 10% for loans over ₱5,000	1985
(4)	Loan size	Increased to ₱5,000	1985
(5)	Loan size	Increased from ₱4,000 to ₱6,000	1984
	Interest rate	Adopted 2-tiered interest rate: retained the 5% just for loans below ₱3,000 and raised rate to 10% for loans over ₱3,000	1985
	Collaterals	Required assets as collateral for loans over ₱5,000	1984
(6)	Loan size	Increased from ₱2,500 to ₱5,000	1984
	Collaterals	Requires assets as collateral	1984

Table 6.4 (cont'd)

	Kind of Change	Manner of Change	Year when Change Occurred
(7)	Loan size	Increased from ₱1,500 to ₱2,500	1984
	Loan size	Increased from ₱2,500 to ₱5,000	1985
	Interest rate	Raised rate from 15% to 20% monthly	1985
	Maturity period	Increased from 6 months to 1 year	1985
	No. of payments	Increased from 12 a year to 24 a year	1985
(8)	Loan size	Increased to ₱1,500	1984
	Loan size	Increased to ₱3,000	1987
	Collaterals	Accepted appliances as collateral	1984
(9)	Loan size	Increased from ₱6,000 to ₱10,000	1984
	Collaterals	Required assets for collateral	1984
(10)	Loan size	Increased from ₱5,000 to ₱10,000 and ₱15,000	1984
	Interest rate	Raised monthly rate from 10% to 15%	1984
	Collaterals	Accepted appliances and jewelry as assets for collateral	1984
(11)	Loan size	Increased from ₱2,000 to ₱7,000	1983
	Interest rate	Raised rate from 10% to 20% monthly	1983
	Collaterals	Required assets as collateral, including jeepney registration	1983

Table 6.4 (cont'd)

Kind of Change	Manner of Change	Year when Change Occurred
(12) Loan size	Increased from ₦1,500 - 10,000 to ₦10,000 - 15,000	1985
Interest rate	Raised interest rate from 10% to 15%	1985
No. of payments	Changed payment scheme from everyday to once a month	1983
Collaterals	Jewelry and appliances accepted as collateral	1985

VII. CONCLUSIONS AND POLICY IMPLICATIONS

The previous chapters provide us some idea on the breadth and width of the specialized credit market for overseas employment. This market is significant and innovative; it has responded well to the dynamism and volatility of the overseas employment program.

There is great diversity of lenders and borrowers in this market. Lenders for overseas employment include not only family members, relatives, and friends. It also involves professional moneylenders who have either shifted personal funds or entered informal lending in response to new opportunities in overseas employment; airlines, employers, and agents who have tied their lending with overseas employment contracts; and even government lenders. Borrowers are of many different occupations bound for many destinations. Borrowings cut across different wage levels as well and are done for a variety of reasons: placement fees, travel arrangements, and even living and consumption expenses during the overseas job search.

This credit market has evolved different types of terms and conditions to suit the needs of its clientele. However, because of the ease by which this type of credit is made available, a third of hired overseas workers are even unaware of the terms and conditions of their borrowings.

While specialized, this market responds both to conditions in local financial markets (such as high liquidity and inflation) as well as to the equally volatile demand and supply conditions in the international labor markets. Unfortunately, it is difficult to generalize whether the overseas employment credit market is more responsive to the local financial situation rather than to the overseas labor conditions because the great disturbances in the Philippine financial markets coincided with large contractions in the major job destination for labor, the Kingdom of Saudi Arabia.

The overseas employment program owes much of its continued vigor to the support of the informal credit market. At a time when the foreign employers were passing on recruitment costs fully to the overseas job applicants, the local informal credit market provided the funds to sustain deployment schedules of workers. This financial service to overseas job applicants underscores the capability of the informal lenders to respond to the needs of a multitude of borrowers who are largely underserved by the formal banking sector.

In the same breath, another type of the informal lenders, the nonlegal money couriers, are able to provide superior remittance banking services to the overseas job workers at worksite relative to the officially designated remitters: the commercial banking system. Since responding to overseas workers' needs requires from the banks specialized services, many formal banks have shied away from developing separate programs for overseas workers. This has provided a comfortable market niche for the informal and quasi-banking sector.

Much like in the remittance services, the policy initiatives in this area should focus on expanding rather than decreasing the official channels of credit and other banking services. This can begin with the recognition of the contribution of the informal lenders; it is not helped by the government's recent initiatives to replace informal activities with specialized programs, as in the case of OWWA's minimal lending program to hired overseas workers nor in the proposed establishment of a government money couriers system.

It is important as well to ensure that tied employer and agent credit systems provide workers with sufficient information on loan terms and conditions. It may be more beneficial in the long run that government financial and private commercial banking institutions use the informal channels such as agents and contractors for credit extension and collection rather than develop parallel competing systems.

Terms and conditions in lending for overseas employment can be improved to benefit workers if overseas employment contracts or agents' recruitment orders can be strengthened as negotiable

instruments of bank loans and rediscounting with the Central Bank. Unfortunately, because of the seemingly high incidence of fraud and illegal recruitment practices experienced by borrowers, lenders are hesitant to accept these contracts at face value, unless accompanied by other safer collaterals and guarantees. But this requires a whole set of policy action that lies beyond the scope of this paper. Still, it is important to emphasize that the inherent vulnerability and insecurity integral to overseas employment lies in contract instability and this must be diminished if terms and conditions of lending are to be improved.

Workers would also greatly benefit from better information on credit for overseas employment. Such information would enhance their own personal decisionmaking regarding overseas employment; more than ever, there is a great need for continuous monitoring and information dissemination on the features of this credit market.

GLOSSARY

1. Private Employment Agencies

Private employment agencies recruit and place land-based workers for a fee. These agencies, popularly called recruiters, deal directly with workers and employers and are responsible for recruitment, documentation, contracts processing, and mobilization.

There are a few variations of private employment agencies. For example, entertainment promoters specialize in recruiting, training, and managing performing artists and talents for short-term stints at foreign nightclubs, bars, and hotel lounges. Specialized rules apply to them.

2. Construction Contractor

Construction contractors act as direct employers of Filipino workers. As such, construction contractors supervise and manage their performance at worksite, and are responsible for payrolling and coverage with labor and social security legislations both in the foreign country and in the Philippines.

3. Provisional Authority to Recruit

Holders of provisional authority to recruit have been authorized to recruit and place overseas workers for specific job contracts.

4. Manning Agencies

Manning agents specialize in hiring seamen/women and crewing vessels plying international routes. These agents often act as Philippine representatives of foreign shipping companies and are responsible for diverse services such as payrolling and insurance coverage.

Manning agents are not allowed to charge placement fees from hired seamen/women. They are exempt from many land-based worker regulations, but are required to handle worker payroll. They pay lower government processing fees and share the costs of Overseas Workers' Welfare Fund contributions with their hired seamen.

5. Service Contractors

Service contractors also act as direct employers of Filipino labor for management and other sub-contracts in foreign countries.

6. Newly Hired Workers (or New Hires)

Newly hired workers are those only recently hired by their foreign employers and who have not yet assumed foreign assignments.

7. Vacationing Workers (or Early Hires)

Vacationing workers are those who have recently returned from worksite for either a vacation or an emergency leave and are intending to reassume their foreign assignments.

8. Processing Fees

Processing fees are out-of-pocket documentation expenses of every worker such as the POEA and Welfare Fund Fees, medical examinations, visa costs, etc. These fees are paid upon selection by the employer or as the costs occur.

9. Placement Fees

Placement fees are agency commissions and are paid upon the turn-over to the worker of his passport, visa, ticket, and other documentation.

10. Recruitment Costs

Recruitment costs include all payments for documentation, processing, and travel of hired workers, whether paid before departure or during the contract period. Workers' payments are called placement expenses; employers' payments are hiring expenses.

11. Private Recruitment Entities

This group includes contractors, whether construction or service, who are direct employers of Filipino labor. They supply both labor and management expertise as they directly supervise hired labor in foreign job sites. As a result, employees of these companies are also covered by Philippine labor law including social security coverage.

Contractors are responsible for overseas payrolling and site supervision. They are prohibited from charging fees aside from minimal personal documentation expenses of workers. They pay lower fees for contract review and evaluation with the government and contribute less to the Overseas Workers' Welfare Fund.

Many so-called contractors are actually disguised recruiters. In order to get around restrictive government policies, Letters of Instruction 852 and 1190, new agents register as either construction contractors or service contractors. Given the distance of foreign worksites, government is unable to verify actual on-site payrolling and supervision.

12. Direct Hire or Self-solicited

Direct hiring is the recruitment and placement of Filipino workers by foreign employers through advertising, company employee referrals, or direct worker application.

Workers who find jobs through referrals of foreign-based family members or friends are required to process their documents either through licensed employment agencies or through the government placement office. In the latter, they are processed as "name hires."

13. Government Placement Office

The Philippine Overseas Employment Administration, the government office overseeing the overseas employment program, has its own internal placement office. This office can recruit and place workers only for foreign government clients, though it is allowed to process the work documents of name hires.

All charges for documentation and processing are passed on to the foreign government clients.

14. Illegal Recruiters

This group includes, as defined by law, all persons and entities who (a) recruit and place workers without license or authorization; and (b) engage in prohibited recruitment practices. Illegal recruiters are either unlicensed job agents or licensed agencies engaging in prohibited practices.

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